

REPUBLIC OF KENYA



*Enhancing Accountability*



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DATE: 12 MAR 2024 TUESDAY  
OF Hon Owen Bayo, MP  
Deputy leader, majority party  
Inzofu mwale

**REPORT**

**OF**

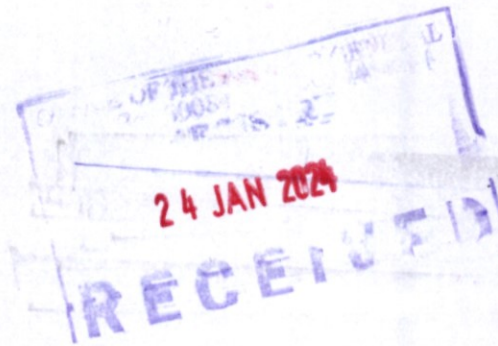
**THE AUDITOR-GENERAL**

**ON**

**NUMERICAL MACHINING COMPLEX  
LIMITED**

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





**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2023**

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL  
REPORTING STANDARDS (IFRS)**



**NMC is ISO 9001: 2015 Certified**

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Numerical Machining Complex Limited

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

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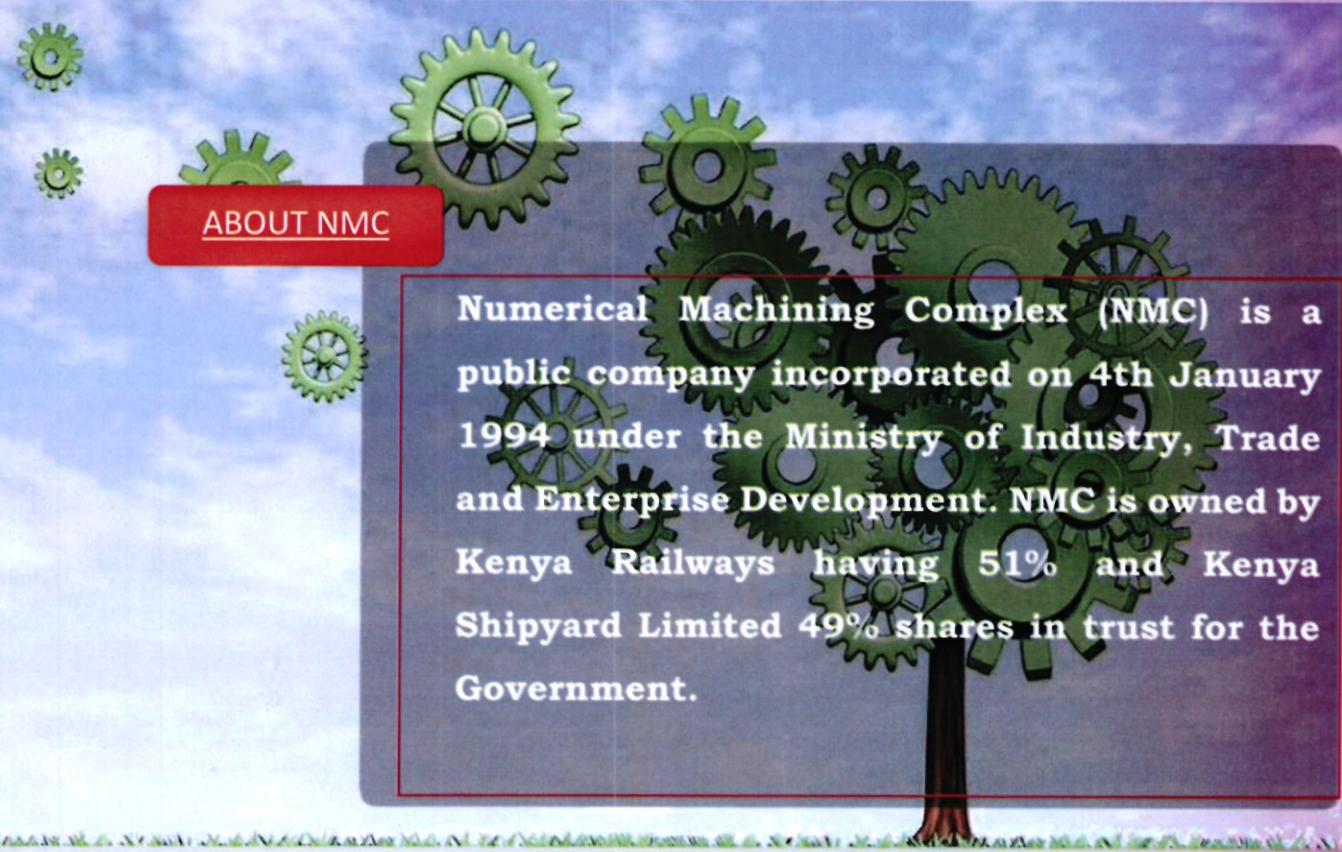
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## 1. Acronyms and Glossary of Terms

<b>IFRS</b>	International Financial Reporting Standards
<b>MD</b>	Managing Director
<b>NT</b>	National Treasury
<b>PFM</b>	Public Finance Management.
<b>PSASB</b>	Public Sector Accounting Standards Board

## 2. Key Entity Information

### ABOUT NMC



Numerical Machining Complex (NMC) is a public company incorporated on 4th January 1994 under the Ministry of Industry, Trade and Enterprise Development. NMC is owned by Kenya Railways having 51% and Kenya Shipyard Limited 49% shares in trust for the Government.

### Our Vision

To be a pacesetter in providing innovative solutions in the industrial value chain.

### Our Mission

To catalyse industrialization in Kenya by leveraging natural resources and modern manufacturing technologies through stakeholder collaboration for sustainable development.

### **Our History**

The history of NMC revolves around the "Kenyan Car Project", in the late eighties and early nineties. The motivation to undertake R&D on the Car Project emanated from a challenge from the then Head of State H. E. Daniel A. Moi to the University of Nairobi, Ministry of Defence and Kenya Railways to spearhead research and develop a Kenyan car. The project team successfully designed and manufactured five (5)



Due to the challenges in the car project, Numerical Machining Complex (NMC) was registered under the Companies Act CAP 486 of the Laws of Kenya on 4th January, 1994 to take over the assets and liabilities of the Nyayo Motor Corporation.

In January 1994, Numerical Machining Complex Limited (NMC) was incorporated as a company under the Companies Act CAP 486 Laws of Kenya to take over the assets and liabilities of Nyayo Motor Corporation. NMC is a public company whose mandate is the commercial production of steel, engineering design and manufacture of machinery and components. NMC is under the Ministry of Investments, Trade and Industry (MITI) and is owned by Kenya Railways having 51% and Kenya Shipyards Limited 49% shares in trust for the Government.

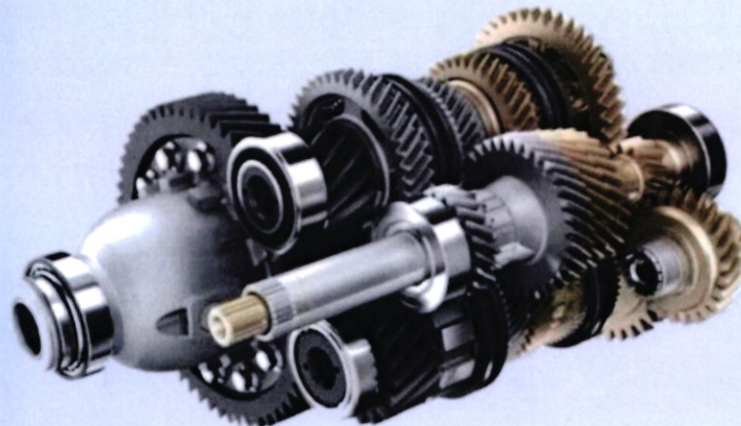
NMC is ISO 9001: 2015 certified which confirms its commitment to good practices that ensures consistent delivery of services in line with globally recognized standards. The company is committed to delivery of quality products and services at all times.

## **b) Principal Activities**

NMC is a manufacturing company that deals with the manufacture of machinery and components. NMC is equipped with modern facilities namely; Computer Numerically Controlled (CNC) machines, foundry plant, heat treatment facility, fabrication Center and metallurgical laboratory.

The main objective of the company is to provide quality, safe and durable products to its customers. In pursuit of this objective, the company has invested heavily on the latest technology machines ranging from 3-Axis to 5-Axis mill turn machines, laser cutter, press brake among others.

The installed capacity enables the organization to manufacture various products namely; assorted gears, shafts, brake blocks, steel fittings, spacers, machine tools & machinery among others.



## **Government Support**

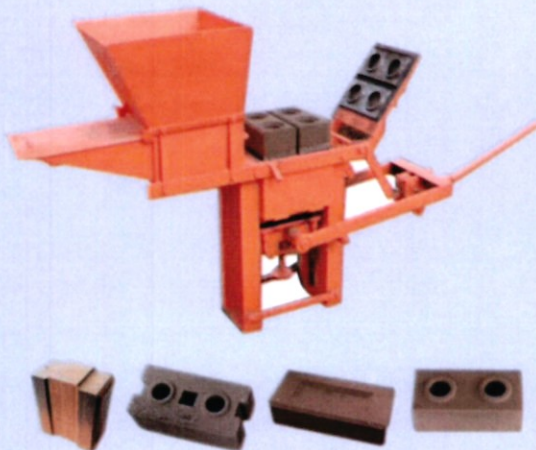
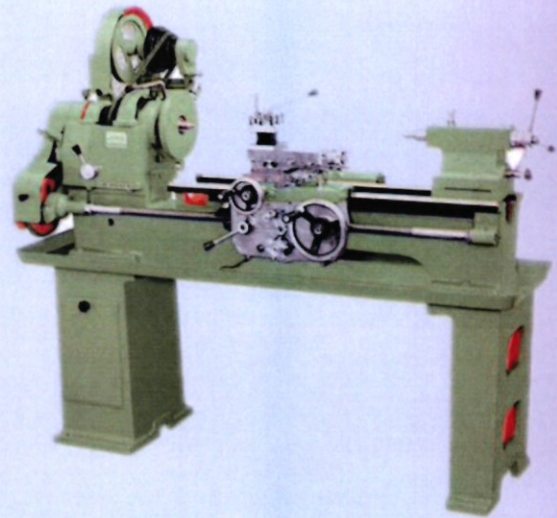
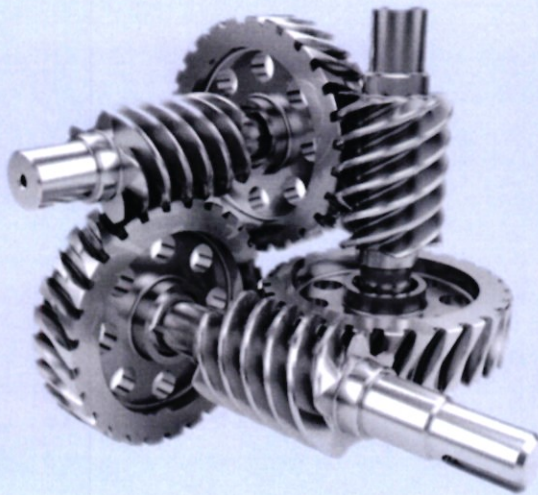
Currently, the Ministry of Investments, Trade and Industry (MITI) is responsible for:

- ⊖ Funding;
- ⊖ Policy direction &
- ⊖ General oversight



## **Our Products**

NMC has a wide range of products which have been designed and manufactured namely; lathe machines, drilling machines, water pumps, brick making machines, hospital beds and hydraulic presses. These products are aimed at assisting the local industries, technical institutions and SME's. NMC also manufactures replacement parts for various sector to include; energy, cement, sugar, tea, automotive among others.



### ISO 9001:2015 Certified

ISO 9001  
BUREAU VERITAS  
Certification



NMC is ISO 9001:2015 certified and this confirms its commitment to good practices that ensure consistent delivery of services in line with globally recognized standards.

### NMC Market

Government Agencies

Automotive

Aviation

Energy

Agriculture

Military

Construction

TVETs and SMEs

**C) Directors**

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

	<b>NAME</b>	<b>POSITION</b>	<b>APPOINTED DATE</b>
1.	<b>Capt. (Rtd.) Muhumed Abdi Mohamed</b>	Chairman	Appointed on 10 <sup>th</sup> February 2023.
2.	<b>Maj. Gen. (Rtd) Pastor Awita MGH, EBS, ndc(K), Psc' USA</b>	Chairman	Appointed on 17 <sup>th</sup> October 2019. Excited on 9 <sup>th</sup> February 2023
3.	<b>Mr. George Makateto</b>	Ag. Managing Director	Appointed on 28 <sup>th</sup> February 2023.
4.	<b>Eng. David Mwadali</b>	Managing Director	Appointed on 27 <sup>th</sup> March 2020. Exited on retirement on 28 <sup>th</sup> February 2023.
5.	<b>Mr. Phillip Nyingi</b>	Alternate to Chief of Staff and Head of Public Service	Appointed on 3 <sup>rd</sup> September 2015
6.	<b>Mr. Douglas Manyara</b>	Alternate to Principal Secretary, National Treasury	Appointed on 6 <sup>th</sup> July 2020
7.	<b>Ms. Esther Maina</b>	Alternate to PS Ministry of Transport and Infrastructure	Appointed on 23 <sup>rd</sup> March 2023
8.	<b>Mr. James Nyambune</b>	Alternate to Principal Secretary in the Ministry of Education.	Appointed on 7 <sup>th</sup> August 2015
9.	<b>Mr. George Makateto</b>	Alternate to Principal Secretary, Ministry of Investment, Trade & Industry	Appointed on 7 <sup>th</sup> August 2018. Appointed Acting MD w.e.f. 28 <sup>th</sup> February 2023.
10.	<b>Ms. Lilian Moraa</b>	Alternate to Principal Secretary, Ministry of	Appointed on 28 <sup>th</sup> February 2023.

		Investment, Trade & Industry	
11.	<b>Ms. Julia Wanjiru</b>	Appointed as an alternate to the PS Ministry of Defence	Appointed on May 2019. Excited w.e.f. 28 <sup>th</sup> February 2023
12.	<b>Mr. Joseph Mutuma</b>	Appointed as an alternate to the PS Ministry of Defence	Appointed on 23 <sup>rd</sup> April 2023.
13.	<b>Ms. Yattane T. Duba</b>	Independent Member	Appointed on 28 <sup>th</sup> October 2021.
14.	<b>Mr. Geofry Mahinda</b>	Independent Member	Appointed on 28 <sup>th</sup> October 2021.

#### **D) Corporate Secretary**

CS. Susan Mungai  
P.O. Box 70660-00400  
Nairobi

#### **E) Registered Office**

Railway Central Workshops  
Workshops Road  
P.O. Box 70660-00400  
Nairobi, KENYA

#### **F) Corporate headquarters**

Railway Central Workshops  
Workshops Road  
P.O. Box 70660-00400  
Nairobi, KENYA

#### **G) Corporate contacts**

Telephone: (254) 020-2327230/58  
(254) 020-2110970

+254 710 568 000/3

+245 716 431 114

E-mail: enquiries@nmc.go.ke

Website: www.nmc.go.ke

#### **H) Corporate bankers**

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KCB Group  
Moi Avenue Branch  
P.O Box 30081  
Nairobi, Kenya

#### **I) Independent Auditors**

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Auditor General  
Office of Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

#### **J) Principal Legal advisers**

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The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

### 3. The Board of Directors



**Maj. Gen. (Rtd) Pastor Awitta,  
MGH, EBS, ndc(K), Psc' USA  
(70 years) - Chairman of the  
Board**

He joined the Board on 17<sup>th</sup> October 2019. He is a retired Major General of Kenya Navy. He has vast experience in logistics and procurement.



**Capt. Muhamed Abdi  
Mohamed  
Chairman of the Board  
Holds a Masters of Business  
Administration, Aviation Moi  
University and a Bachelors of  
Arts in Sustainable Human  
Development Catholic  
University of Eastern Africa.**

He joined the NMC Board on 10<sup>th</sup> February 2023 and is visionary leader who is results driven with extensive experience in Aviation, proven success in leadership and a track record of driving business growth. He is a professional member of Kenya Airline Pilots Association (KALPA).



**Mr. Phillip Nyingi**  
**(55 years) Board Member**  
**He holds a M.A (Development Studies) from the International Institute of Social Studies of Erasmus University, Netherlands and a post graduate Diploma in Corporate Governance from KCA university, Nairobi.**

Appointed as an alternate to Head of Public Service on 3<sup>rd</sup> September 2015.



He exited w.e.f 10<sup>th</sup> March 2023.




**Mr. Douglas Manyara (40 Years)**  
**He holds Master of Arts in Economics (MA Economics) and Master of Business Administration (MBA) both degrees from the University**

He is Alternate Director to the PS/ National Treasury and Planning.

He has over 10 years' experience in Research, Policy formulation and Analysis, Budgeting, Project Planning and Appraisal, Resource Mobilization and Monitoring and Evaluation

	<p><b>of Nairobi and a Bachelors of Arts degree in Economics and Mathematics from the Egerton University.</b></p>	
	 <p><b>Mr. James Nyambune</b> <b>(57 years)</b></p> <p><b>He holds a Bachelor of Technology in Education, Moi University and Masters of Philosophy in Technology Education from University of Eldoret</b></p>	<p>He was appointed to the Board on 7<sup>th</sup> August 2015 as alternate to the PS in the Ministry of Education.</p>
	 <p><b>Mr. George Makateto</b> <b>(52 years)</b></p> <p><b>He holds MPhil in Technology Education (Automotive</b></p>	<p>He was appointed on 7th August 2018 as an alternate to the Permanent Secretary, Ministry of Investment, Trade &amp; Industry (MITI.) He has 25 years' experience in accreditation and quality assurance, industrial development, promotion and productivity improvement.</p>

<p><b>Engineering) and Bachelor of Technology Education (Automotive Option). He also holds a Kaizen certification, ISO Certification EIA Renewable energy &amp; RIO-SIYB.</b></p>	
<p></p> <p><b>Ms. Lilian Moraa</b></p> <p><b>Holds an LLB in Law from Makerere and a Diploma in Law from the School of Law. Currently pursuing a Masters Degree at the University of Nairobi</b></p>	<p>Appointed as an alternate Director Principal Secretary/Ministry of Investment, Trade and Industry On 28<sup>th</sup> February 2023.</p> <p>Currently heading the legal unit at the State Department of Industry. Has wealth of legal knowledge and has worked with various government sectors.</p>



**CPA Julia Ng'ang'a (43 years)**  
**Holds an MBA in Finance and a Bachelor's degree in Economics from the University of Nairobi. She is also a Certified Public Accountant and a member of ICPAK.**

Appointed as an alternate to the PS Ministry of Defence in May 2019. Ms. Ng'ang'a She has over 14 years' experience in Public Finance having worked as a Finance Officer in various Government Ministries.

Exited on 28<sup>th</sup> February 2023.



**Ms. Yattane T. Duda (49 years)**  
**Holds a Masters Degree in Management and a bachelors of Arts, Economics & Sociology.**

Appointed as an independent Director On 28<sup>th</sup> October 2021.

She is a strategist with over 15 years' experience and has been instrumental in developing policies and plans designed to achieve organizations objectives.



**Mr. Geoffrey Mahinda**  
**(66 years)**

**Holds a Bachelor of  
Commerce degree.**

Appointed as an alternate Director On 28<sup>th</sup> October 2021.


He is a businessman with extensive experience in private sector, public sector and broad experience for effective and efficient delivery of services.



**Eng. David Mwadali**  
**(60 years) Managing Director**  
**Holder of BSc Mechanical**  
**Engineering and MBA in**  
**project management . A**  
**registered engineer with EBK**  
**and IEK..**


He was appointed Managing Director on 18<sup>th</sup> February 2020. He has over 30 years' experience Railways maintenance and operations.


Eng. David Mwadali exited the company on 28<sup>th</sup> February 2023 upon completion of his contract.




 <p><b>CS. Susan Mungai, Ag. Company Secretary</b></p>	<p>Susan is the Ag. Company Secretary and a Member of ICS M/No. 2031. She holds an MBA in Strategic Management (USIU), Bsc. IBA in Marketing &amp; Entrepreneurship (USIU), CPS (K) and a Diploma in Human Resource Management (Kenya Poly). Has over 10 years' experience handling Board matters and strategy.</p>
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#### 4. Key Management Team

SN	Management	Details
1.	 <p><b>Mr. George Makateto</b></p> <p>MPhil, Bachelor of Technology Education (Automotive option), Kaizen Certification, ISO Certification, EIA Renewable Energy and RIO-SIYB</p>	<p>Managing Director</p> <p>From 28<sup>th</sup> February 2023</p>

<p>2.</p>	 <p><b>Eng. David Mwadali</b> Member EBK and IEK, BSc Mech. Eng. &amp; MBA in project management</p>	<p>Managing Director</p> <p>Between March 2020 to 28<sup>th</sup> February 2023</p>
<p>3.</p>	 <p><b>Zachariah Magondu</b> Msc Mech. &amp; Aerospace Engineering, Bsc. Manufacturing Engineering</p>	<p>Manager R&amp;D &amp; CNC &amp; Fab</p>
<p>4.</p>	 <p><b>Dr. Charles Kureru, Ph.D</b> Ph.D., MSc, B. Arts, &amp; Higher National Dip. HRM</p>	<p>Manager HR &amp; Admin</p>

5.	 <p><b>CPA Patrick Kariuki</b> MBA (Finance &amp; accounting), BBM (Accounting), Registered Member of CPAK and CPS (Finalist).</p>	Manager Finance & Accounts
6.	 <p><b>Zipporah Samoei, MCIM</b> Professional Dip. in Marketing (Chartered Institute of Marketing). Dip. Digital Marketing (on-going)</p>	In-Charge Sales & Marketing
7.	 <p><b>Fredrick Okumu</b> MBA (SCM), BCOM (Finance). He is registered with CIPS, CPA Part 2.</p>	Manager Supply Chain Management

8.	 <p><b>Eng. Pius Githu</b> PE, MIEK, MIET(K), P.Tech Bachelor of Technology in Production Engineering, Dip.IT, Cert. in Precision Machining Technology.</p>	Manager Maintenance
9.	 <p><b>James Mwangi</b> MBA (Finance), Bachelors of Business Administration (Finance and Accounting), CPAK and CISA (On-going)</p>	Manager Internal Audit –  Between January 2021- January 2023
10.	 <p><b>CS. Susan Mungai</b> MBA in Strategic Management, Bsc. IBA in Marketing &amp; Entrepreneurship, CPS (K), Dip. HRM</p>	Ag. Company Secretary

## 5. Chairman's Statement



**Capt. Muhamed Abdi Mohamed**

CHAIRMAN OF THE BOARD

**Dear Shareholders and Stakeholders,**

It is my pleasure to present to you the Numerical Machining Complex Annual Report and Financial Statements for the year ended 30th June 2023. It's has been a challenging period for our company, and I would like to address the reasons behind our performance and our plans moving forward.

### **Financial Performance:**

Despite our best efforts, we fell short of our revenue and profitability targets for the year. Our total revenue for the year stood at Kshs.58.7 million which is 40% of the targeted annual projected revenues of Kshs.146 million. Similarly, our net profit was lower than anticipated, coming in at loss of Kshs.130 million compared to the expected Kshs.59.2 million target.

Our profitability was also impacted, and we did not achieve the expected margin growth. The unexpected capital and recurrent budgets cuts and lack of working capital to execute high value orders lead to lower-than-expected revenues.

During the year, we encountered various challenges that hindered our ability to meet the set targets. These included: operational challenges, increased market

competition, unavailability of production inputs locally and machine spares, inadequate working capital, insufficient or no credit terms from suppliers of raw materials.

**Way Forward**

As we reflect on the past year, it is crucial that we acknowledge the lessons learned and identify areas for improvement. To ensure a more prosperous future, we have outlined the following strategies: cost optimization, process improvements, customer centric approach, strengthen supply chain, investment in R&D, market diversification and employee development.

Although we did not achieve our financial targets, we are resolute in our commitment to driving the success of the company.

NMC has over the last year introduced several new initiatives and measures to make our services more efficient and accessible. I take this opportunity to thank our customers for their continued support and partnership in the realization of NMC's core mandate.

The coming year presents opportunities for growth and transformation, and we are optimistic about the future. Together, we will navigate the uncertainties and emerge stronger, ready to face the challenges that lie ahead.

**Appreciation**

On behalf of NMC's Board, Management and Staff, I would also like to recognize the support accorded to NMC by our Parent Ministry of Investment, Trade & Investment and by our main shareholder, the National Treasury.

To management and staff: on behalf of the Board of Directors, I commend you all for your tireless effort and commitment to the attainment of NMC's set targets and goals.

I am truly honoured to serve alongside you as we strive to redefine the role played by NMC and drive the Company towards the realization of its strategic goals and objectives.



Capt. Muhamed Abdi Mohamed

**CHAIRMAN/NMC BOARD OF DIRECTORS**

## 6. Managing Director's Report



**Mr. George Makateto**  
AG MANAGING

Sales Revenue  
**Ksh 58.7M**

Kenya power  
Contract

**AGPO**

Youth, Women & PWD  
**Ksh 28.4M**

It is my pleasure to present to you NMC financial statement for the year ended 30<sup>th</sup> June 2023. NMC continues to make investment towards the attainment of its goal of becoming the catalyst in industrialization. In this regard, NMC has invested on new machinery for precision machining and to boost its manufacturing capacity. In order to utilize the installed capacity, the company managed to create 54 new accounts during the year culminating to revenues worth Kshs 8.8 million.

### **Business Performance Highlights**

During the year under review, the company managed to sign a contract with Kenya Power totaling to Kshs.119million. With this amount, the company was on the right path to achieving its set revenue target of Kshs.146million.

The company recorded sales revenue of Kshs.58.7million representing 40% of target by end of June 2023 compared to Kshs.78.8million recorded in the previous year. The decline is attributed to challenges in meeting operational costs associated with budget cuts in both recurrent and development grants making it difficult to expedite the execution of signed contracts.

### **Operating Expenditure**

In FY2022/23, NMC budgeted expenditure was Kshs.399 million but the total operating expenditure for the year under review was Kshs.258 million lower than the budget because of budget cuts by the Government and low internally generated revenue.

### **Youth internship/industrial attachment**

NMC progressively involved 168 youth in internship/industrial attachment program against a target of 119. These programs are essential and help the youth transition from the educational spectrum to the professional world since they are involved in actual practical learning.

### **Implementation of Access to Government Procurement Opportunity (AGPO)**

Tenders valued at Kshs.28.4million were awarded to youth, women and people living with disabilities. This is an increase from Kshs.24million awarded in the FY2021/22.

### **Key Projects**

The period under review saw the company undertake the following projects:

- (i) Modernization of CNC workshop- NMC acquired, installed and commissioned a 5-Axis turnmill machine to aid in precision machining and expanding its manufacturing capacity.
- (ii) Kenya Power contract amounting to Kshs.119million. The organization signed a one-year contract for the manufacture and supply of assorted steel fittings.

### **Looking Forward**

Looking ahead, our focus FY2023/24 will be on proactively developing scalable business in new markets in Kenya and beyond. To this end our aim is to:

- Capitalize on the Bottom-up Economic Transformation Agenda (BETA) on areas of capacity building and manufacturing.
- Roll out products within the cement and mining industry that can be manufactured enmass.
- Develop market driven products.

### **Appreciation**

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In conclusion, I want to extend my heartfelt gratitude to all our stakeholders, customers, Government, employees for their unwavering support accorded to us during the year under review.

Special mention to our Board of Directors for their support, guidance and wise counsel which has made it possible for us to achieve our objective.

I would also wish to recognize and celebrate all employees for their continued agility and resilience through these difficult times. They have demonstrated deep commitment to the business. We have no doubt that we will emerge stronger and with confidence to look forward to a better future.

As we begin the next chapter of NMC growth journey, our main focus will be to delight our customers by going above and beyond their expectations thus making NMC achieve its objectives.



George Makateto

**MANAGING DIRECTOR**

## 7. Statement of Performance against Predetermined Objectives for the Financial Year 2022/23

NMC is expected to be a key player in driving the country's industrialization agenda in line with vision 2030. The strategic goals, objectives and initiatives that NMC focused on achieving over the period. The strategic pillars represented the focal points within which NMC aimed its strategic initiatives in the transformation journey.

These were strategic pillars that NMC had to excel to achieve its mandate: -

1. Enhance development and production of engineering parts and machinery in support of BETA value chains.
2. To strengthen NMC's institutional capacity.
3. To achieve excellence in service provision.
4. To achieve long-term financial sustainability.

### PILLAR 1:

To enhance development and production of engineering parts and machinery in support of BETA value chains

### PILLAR 2:

Strengthen NMC institutional capacity.

### PILLAR 3:

To achieve excellence in-service provision.

### PILLAR 4:

To achieve long term financial stability

NMC developed its annual work plans based on the above four pillar.

Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The company achieved its performance targets set for the FY 2022/23 period for its four (4) strategic pillars, as indicated in the table below: -

<b>Strategic Pillar</b>	<b>Objective</b>	<b>Key Performance Indicators</b>	<b>Activities</b>	<b>Targets</b>	<b>Achievements</b>
<b>Enhance development and production of engineering parts and machinery in support of BETA value chains</b>	Increase development and production of automotive parts in support of BETA value chains	Number of automotive parts manufactured	Manufacture of automotive parts	1000	210
	Enhance the design and production of Machine tools.	Number of machines manufactured	Develop and manufacture of machinery	36	25
	Enhance production of railway rolling stock components	Tonnes of casting	Casting of foundry products	150	55
	Production of industrial parts in support of sustainability of existing industries.	Number of industrial parts manufactured	Manufacture of steel industrial parts	460,135	32,202
	Enhance the Research and Development arm of NMC	No. of equipment and training	Acquiring of R&D equipment	1	0
	Modernization of Foundry and CNC Workshop	Completion rate (%)	Rehabilitation of foundry and CNC Workshop	35.21	33.67

<b>Strengthen NMC's institutional Capacity</b>	Strengthen governance frameworks.	No. of policies	Formulation of policies.	3	2
	Transformation of Human resource to support NMC mandate	Number of staff employed.	Replacement of the vacant position-	5	3
			Training	120	17
<b>To Achieve Excellence in Service Provision</b>	Enhance customer relations and engagement	Customer Satisfaction index (%)	Undertaking Customers satisfaction survey	Increase by 16% from previous index	Increase of 9% from previous index
	Increase NMC brand visibility	No. of advertisement and exhibition attended	Undertook advertisement and exhibitions	8	4
<b>To achieve Long Term Financial Stability</b>	To mobilize resources to finance NMC operations and growth initiatives	Percentage of funds allocated against how much was requested.	Bidding for resources.	100	65

Over the period NMC was able to contribute to Kenya's BETA value chains by designing and manufacturing of parts totaling to 32,437. Modernization of foundry and CNC workshop was another milestone for the Company by acquiring and installing one (1) machine which will strengthen machining capacity.

Due to increased activities, it necessitated the need to strengthen NMC's institutional capacity by filling of vacant positions and providing training to its

staff. However, the company experienced serious financial constraints due to budget cuts for both operations and capacity development.

### **Environmental and Sustainability Reporting**

Climate change is one of the most pressing challenges facing our planet today. The effects of climate change are already being felt around the world, in the form of more extreme weather events and rising of sea level. Action needs to be taken to address climate change to prevent devastating consequences.

Kenya has made significant political and economic reforms that have contributed to sustainable economic growth, social development and political stability over the decade. However, its key development challenges still include climate change and environmental pollution.

Numerical Machining Complex exists to transform lives. We have sought to drive a broad development philosophy and to bring excellence and best practices in the markets in which we operate. We do this by designing, developing, manufacturing machines and equipment which provide mechanization which is locally produced and therefore provide import substitutions and create employment.

We recognize that we have responsibility to our stakeholders to apply the best practices to manage Environment, Social and Governance (ESG) matters across our operations. This report details the range of initiatives across ESG indicators that align our operations in accordance with sustainability principles. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

### **Sustainability Strategy and Profile**

The company has taken the sustainability in business operations. We have aligned our operations to sustainable development goals (SDGs) namely

responsible consumption and production, affordable and clean energy, innovation, waste reduction and water management adopted by the company and embedded in our everyday business operations. Responsible consumption and production, innovation, energy efficiency increased waste consumption and water management in the organization makes greater business sense for us to save money, minimize climate change risk, enhance business image, improve customer and staff satisfaction.

### **Responsible consumption and production**

NMC advocates for resource efficiency and cleaner production to perform their mandate in production of steel, engineering design and manufacture of machines and components. This is achieved by continuous application of preventive environmental strategies to processes, products and services in order to increase efficiency and reduce risks to the environment.

The company emphasizes the use of 3R (Reduce, Reuse and Recycle) approach to minimize the amount from generation to disposal. NMC is practicing responsible consumption and production by doing the followings:

- i) Use of scrap metals generated to smelt and perform casting into new products which can be reused or recycled after reaching the end of life.
- ii) The casting sand used in the foundry is being reused.
- iii) Shifting from coke and oil furnaces to induction furnace which use electricity as a cleaner energy.
- iv) Partnering with Japanese company to establish an environmentally sound management of end-of life vehicles (ELVs) in Kenya.

#### **a) Innovation**

NMC has ideas related to technological innovation identified for the new products, processes, organization systems that reduces energy consumption, minimizes pollutants emissions, enhance environmental quality and encourage the growth

of a green economy. The company is doing the following through the use of technologies:

- i) Designed and manufactured mini hydro plant generating power being used by communities.
- ii) Designed and manufactured biodiesel plant.
- iii) Collaborating with local innovators in designing and manufacturing of electro mobility to support attainment of SDG 13 on combating climate change and its impacts.

### **b) Energy efficiency**

Countries have set ambitious targets to accelerate the transition to energy efficiency and renewable energy such as the UN sustainable development Goal 7, which aims to ensure access to affordable, reliable, sustainable, and modern energy for all by 2030. Corporations are also making commitments, with many seeking 100% renewable energy usage. Our objective is to improve our energy efficiency through various initiatives.

NMC focuses on using energy responsibly, where fewer resources are consumed which helps to reduce the carbon footprint. Energy efficiency allows us optimize the use of natural resources and create a local economy, thereby promoting responsible consumptions. The company is doing the following to increase energy efficiency in its operation:

- i) Use of alternative power to run casting operation and use of power saving lightings to reduce energy consumption
- ii) Use of systems to ensure energy supplied is consumed
- iii) Switching of machines and equipment when not in operations

### **c) Waste Reduction**

NMC generates metallic waste during machining operations. The waste which needs to be managed carefully to achieve sustainability goals. NMC is familiar with environmental regulations and has developed an effective waste and material management process by doing the followings: -

- i) Implementation of a circular process in recycling metallic wastes.
- ii) Maintenance of a lean and green facility.
- iii) Protection of the planet by maintaining a healthy environment.
- iv) Implementations of 5S and Kaizen philosophies in waste elimination.

#### **d) Water Management**

Efficient water management is crucial for sustainable development as it impacts various sectors. It is particularly important to address the environment impact of water related processes as they contribute up to 50% of greenhouse gas emissions. By optimizing water distribution systems and reducing energy intensive practices, we can mitigate carbon emissions and promote a sustainable future. Prioritizing water management not only ensure water availability but also supports environmental and economic sustainability.

We are dedicated to practicing responsible water management and continuous striving to decrease our water consumption and effectively safeguard our water sources. We have put in place various efforts on water management as follows: -

- i) Our water is metered to various consumption points in production facility to enable us monitor inefficient water usage and track leakages across the production processes.
- ii) We focus to sensitize staff on water consumption and management.

#### **Environmental Performance**

NMC has put in place initiatives to prevent continued degradation of the environment in its manufacturing processes. We acknowledge the impact our operations have on environment. Our approach to environment and environmental management therefore involves diligently identifying and controlling environment risks from sourcing raw materials to production, operations, and product distribution across our market of operations. Our aim is to proactively reduce our impact on the environment, champion a proactive stance in protecting our planets and shape sustainable future.

In addition, carbon emissions contribute to climate change. The latest reports have indicated that the world needs to reduce its greenhouse gas emissions (GHG) by 50% by 2030 and reach net zero emission by 2030 to avoid the worst effects of climate change. Despite Kenya's minimal contribution of less than 0.1% to global greenhouse gas (GHG) emission each year. NMC is actively implementing strategies to embark on a low carbon trajectory, aiming to achieve carbon neutrality across our operations.

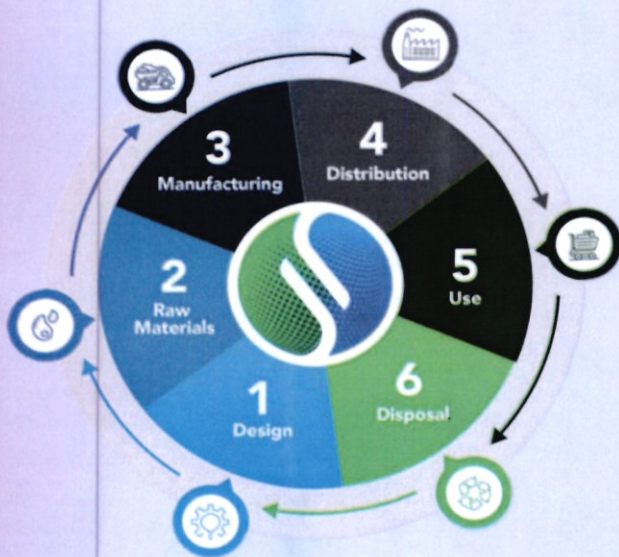
As part of our contribution, we have made progressive measures to reduce our carbon footprint by putting in place various efforts. NMC has thereby implemented a range of initiatives to reduce emissions and promote sustainability on its operations. Some of the initiatives that NMC has put in place to guide on environmental sustainability include:

- a) NMC procured an induction furnace, which uses cleaner energy as opposed to the traditional use of coke in its processes. This has contributed to the reduced uptake of coke hence reduction in carbon monoxide gas emissions into the environment which has adverse effects to the environment.
- b) The Company contracted NEMA certified waste disposal management companies to collect used oil. This ensured that the oil supplied was handled properly from the site to its destination and there was no spillage on the ground.

Due to financial constraints, the company was unable to dispose used sea sand, cyanide and asbestos which has to be done by a NEMA certified waste disposal management company. The Company's key mandate is production of steel, engineering design and manufacture of machinery and components. In view of this the Company undertook to recycle waste material generated out of its products in order to reduce negative effects. This was done by smelting of scrap metal into billets for re-use in manufacturing machinery and components.

### **Product Stewardship**

Driven by business and consumer demands, NMC strive to ensure that their products and operations are legally compliant across the globe and satisfy the company's sustainability objectives. Our multidisciplinary team works collaboratively with clients to develop and implement practical strategies that identify, prioritize, and meet these constantly and rapidly-changing demands.



Product stewardship (managing the compliance, risks, and impact of products) has become more complex in recent years with the increased regulations, “voluntary” standards, and regulatory scrutiny regarding product contents, safety, and use. Our team undertake spectrum of activities affecting our product stewardship, from product concept and design through manufacturing, distribution, product labelling, packaging, marketing, sale and use and, ultimately, recycling and disposal.

To help us to cross international borders in different jurisdictions with greater ease, we evaluate existing and new products for compliance with the regulations of a potential new market and can help us solve stewardship issues that would otherwise delay product importations at customs.

NMC strive to stay a step ahead of any necessary compliance changes and to identify the best ways to comply with changes to regulations and standards before they become effective. Thus, we undertake pre-development screening to ensure that products comply with current regulations as well as to identify regulatory changes that may be on the horizon.

Our sustainability-focused practice also includes on the challenges of emerging contaminants. These emerging contaminants are chemicals commonly used in

operations, cleaning and other products but identified as posing potential threats to human health and the environment. We manage by not using materials banned or phased out, as well as potential risks related to the handling, sale or disposal of materials affected by contaminants.

With the growing emphasis on and commercial value of corporate responsibility and environmental impact, we highlight our current sustainability and compliance successes or to evolve our businesses to stay ahead of the competition and within the regulatory guardrails.

NMC is committed to managing the health, safety and environmental aspects of raw materials, intermediate and consumer products throughout their life cycle and across- the value chain in order to prevent or minimize negative impacts and maximize value.

NMC purchase raw materials which are of required standard and set regulation. In the manufacturing set up, the company invested in machines and equipment which are environmentally friendly during their operation to reduce air emission, wastewater, solid waste, and other release/co-products.

The company reduce/reuse/recycle raw materials such sand and scrap metals in the foundry plant operation. In addition, NMC ensure the products manufactured are within the safety and standard required throughout their life cycle.

### **Employee Welfare**

NMC considers its human capital as an important and integral part of all its operations. The company thus, is committed to being an equal opportunity employer by attracting, recruiting, and retaining skilled employees aimed at ensuring it achieves its strategic objectives. Further, NMC is committed to promote equity and foster equality at the place of work

**“Employee welfare is the cornerstone of a thriving and compassionate workplace, fostering a culture of care, support. and mutual growth.”**



NMC has approved HR policies namely human resource manual and career progression guidelines that guides in recruitment and currently the same are being reviewed to accommodate the changes in the business environment.

The manual also enumerates welfare and benefits initiatives which are geared towards enhanced employee motivation, retention and improvement of employees' health and wellbeing

### **Capacity building**

At the beginning of the financial year, each department provides training needs assessments which enables the HR department to plan.

### **Performance Management and Reward**

To ensure productivity, the organization employs performance management and reward system. At the beginning of the financial year, each staff signs a pre-negotiated targets which will be frequently monitored. Performance appraisal is done annually and the interventions recommended implemented in the preceding year.

### **Employee Engagements**

Feedback from employees is very vital in any organization. NMC has put in place ways in which staff can be engaged namely; monthly staff meetings, morning departmental meetings and employee satisfaction survey which are done annually.

### **Gender Equality**

Gender equality and diversity remains a key talent focus area. The gender data for the period under review was 82.5% male and 17.5% female. This has been attributed by low uptake by female applicants despite equal opportunities presented to all.

### **Employee Wellness**

NMC recognizes that employee's health has a direct impact on performance, concentration, job satisfaction and morale. Consequently, mental and physical wellbeing of staff is one of the company's priorities. During the year, NMC ensured that staff and their dependents had medical cover and also organized for

screening of non-communicable diseases (blood pressure, blood sugar, & BMI) and HIV for staff.

### **Work Place Safety (OSH)**

NMC endeavors to ensure that safety is promoted in all its operational and work environments, as guided in the provisions of the Occupational Safety and Health Act (2007). To improve safety culture, NMC has put in place an Occupational Safety and Health Committee which conducted staff sensitization. NMC will continue to adhere to OSH provisions in the coming year.

#### **i) Market place practices-**

The company conducts its business in an ethical manner and always strives to follow the general principles namely; respect for customers & suppliers, honest, integrity and objectivity.

Integrity is one of NMCs core values and the organization has provided various ways of reporting corruption related matters namely;

- Suggestion boxes which are placed strategically within the organization
- A link on the website that allows reporting of corruption incidents

The organization has continued to implement the anti-corruption policy and corruption preventions through the guidance of anti-corruption committee which comprises of all the heads of departments and Chaired by the Managing Director.

#### **a) Responsible competition practice.**

Explain how the organisation ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.

#### **b) Responsible supply chain and supplier relations**

Explain how the organization maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices.

#### **c) Responsible marketing and advertisement**

NMC is committed to responsible marketing & advertising and in compliance with the existing laws. As a company that deals with the manufacture of various

products, machines & machinery, we promote the benefits of our products using different channels of brand communication.

NMC ensures that its marketing communications are decent, honest and truthful for its targeted market.

**d) Product stewardship**

Outline efforts to safeguard consumer rights and interests.

**ii) Corporate Social Responsibility / Community Engagements**

NMC corporate social responsibility is aimed at creating a positive impact in the society. The main aim is to contribute to sustainable development through sponsorship programmes and giving back to the society

During the year under review, NMC sponsored through monetary support the Tegla Lorupe Peace Foundation a private organization that promotes peace through sports during their Dialogue and Peace Sports Activity in Turkwel West Pokot County held on 25<sup>th</sup> and 26<sup>th</sup> November 2022. The event targeted women and youth as a prerequisite to socio-economic development.



*MD NMC handing over the cheque to Tegla Lorupe*

## 8. Corporate Governance Statement

Numerical Machining Complex Ltd is committed to upholding the tenets of good corporate governance which is a reflection of its core values that include integrity, transparency, accountability, diligence, team spirit, loyalty and care for the environment. The Board has continued to guide the Company towards sustainable long-term success through the exercise of objective and informed decisions aimed at determining the strategy of the Company, ensuring that there is a competent team in place to implement the strategy, adheres to the laws and policies and effective controls to mitigate risks facing the business.

### **Board of Directors**

In the period ending 30th June 2023, the Board was made up to eleven (11) members comprising of the Chairman, Managing Director Kenya Shipyard Limited, Managing Director Kenya Railways, alternate Directors for Permanent Secretary/National Treasury, the Permanent Secretary /Ministry of Education, the Permanent Secretary /Ministry of Transport & Infrastructure, the Permanent Secretary /Ministry of Education, Head of Public Service & Chief of Staff ,the Managing Director/NMC and two (2) independent directors of various backgrounds.

This in tandem with the Memorandum and Articles of Association of the Company.

### **Board Changes**

Capt. (Rtd.) Muhamed Abdi Muhamed was appointed as the Chairman of the Board on 10<sup>th</sup> February 2023 replacing Major Gen. (Rtd.) Pastor Awitta.

Mr George Makateto was appointed the Acting Managing Director and CEO of the Company with effect from 28<sup>th</sup> February 2023 to replace Eng. David Mwadali on retirement and completion of his term in office.

### **Role of the Board**

The Board provides leadership and strategic direction to the company and is tasked with the following responsibilities:

- Determining the business strategies, plans and policies that underpin the corporate strategy.
- Discussing and approving strategic plans, policies and annual budgets.
- Continually monitoring the exercise of delegated power by management.
- Ensuring that a comprehensive system of policies is in place and that appropriate governance structures exist to ensure smooth, efficient and prudent stewardship of the company.
- Identify and reviewing key risks, opportunities and strengths relating to the company.
- Ensuring that the company's organizational structure and capability are appropriate for implementing strategies.
- Setting policies on internal controls and obtaining regular assurance that the system is functioning effectively and is effective in managing risks.

### **Board Charter**

The Board has developed and put in place a Board Charter. The Charter has defined the roles to ensure there is clear separation of responsibilities as required under good corporate governance.

### **Board Committees**

The Mwongozo Code of Conduct permits the Board to set up committees consisting of Board members and departmental heads, who are tasked with assisting the Board in the execution of its duties and authorities and as defined by the Board.

These committees include:

- Audit and Risk committee
- Technical Committee
- Finance Committee
- Human Resource Committee

The composition of the Board Committees as indicated in the table below:

Name of Director	Board Position	Board Committees			
		Human Resource	Audit & Risk	Finance & Technical	Land Ad-hoc
<b>Maj. Gen. (Rtd.) Pastor Awitta</b>	Chairman (Exited 9/2/23)				
<b>Capt. (Rtd.) Muhumed Abdi Mohamed</b>	Chairman ( W.e.f 10/2/23)				
<b>Major Gen. Paul Otieno</b>	MD/ Kenya Shipyard Ltd. Vice Chairman			Chair (Technical)	
<b>Mr. George Makateto</b>	Alternate to PS, Ministry of Investment, Trade and Industry			√	√
<b>Ms. Lillian Moraa (Replaced Mr. George Makateto w.e.f.28/2/23)</b>	Alternate to PS, Ministry of Investment, Trade and Industry			√	
<b>Mr. Philip M Nyingi</b>	Alternate to PS, Chief of Staff & Head of Public Service	√			
<b>Mr. James Nyambune</b>	Alternate to PS Ministry of Education			√	√

<b>Ms. Julia Wanjiru</b>	Alternate to PS Ministry of Defense			Chair (Finance)	
<b>Ms. Yattanne Duba</b>	Member	Chair			
<b>Mr. Geoffrey Mahinda</b>	Member		Chair		
<b>Mr. Remmy Koech</b>	Member		√		
<b>Mr. Douglas Manyara</b>	Member		√		
<b>Mr. Esther Maina</b>	Member			√	
<b>Mr. Joseph Mutuma</b>	Member			Chair (Finance)	
<b>Ms. Mary Kimonye</b>	Member	√			

### **Board Meetings**

The Board of Directors meets regularly as required in order to effectively and efficiently monitor the implementation of the Company's planned strategies, review it in conjunction with its financial performance and business development and approve issues of strategic nature.

The notice, agenda and detailed Board papers are circulated on a timely basis to ensure that the directors receive accurate, timely and clear information for decision making.

The Board held four (4) full Board meetings and five (5) special Board meetings during the year in review as below:

Total No. of Meetings	Special Board meetings	Board Meetings						
			Human Resource	Audit & Risk	Finance & Technical	Land Ad-hoc	Board Induction	Finance & Audit
	5	4	1	1	4	0	1	1
<b>Capt. Muhamed Abdi Muhamed</b>		1\4						
<b>Maj. Gen. P. Awitta</b>	4\5	3\4					1\1	
<b>Mr. George Makateto</b>	4\5	3\4			3\4		1\1	1\1
<b>Mr. Philip M, Nyingi</b>	3\5	3\4	1\1				1\1	
<b>Mr. James Nyambune</b>	5\5	4\4	1\1		4\4		1\1	1\1
<b>Ms. Yattanne Duba</b>	5\5	2\4	1\1		2\4		1\1	
<b>Mr. Remmy Koech</b>	4\5	1\4		1\1				
<b>Mr. Geoffrey Mahinda</b>	5\5	2\4		1\1			1\1	
<b>Ms. Julia Wanjiru</b>	3\5	3\4			3\4		1\1	1\1
<b>Mr. Douglas Manyara</b>	4\5	4\4		1\1			1\1	
<b>Mr. Livingstone Mburu</b>	2\5	3\4						
<b>Ms. Lilian Moraa</b>		1\5			2\4			

**Directors' Remuneration**

Board members were remunerated for their services in accordance with the relevant legislative provisions or as guided by the State Corporations Advisory Committee.

Directors were entitled to sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within set limits of the State Corporations.

In addition, the Chairman is paid a monthly honorarium.

**Details of Directors' emoluments during the year are shown below**

No	Allowance	Chairman	Boardroom
1	Honoraria	Kshs.80,000	N/A
2	Sitting	Kshs.20,000 per sitting	Kshs.20,000 per sitting
3	Airtime (mobile)	5,000 per month	N/A
4	Lunch	Kshs.2,000 per day	Kshs.2,000 per day
5	Transport	Determined by prevailing guideline, National Treasury Circular 2015 paid at prevailing AA of Kenya rates	
6	Personal Accident Cover (not life)	Procured competitively	
7	Medical Expenses	Inpatient Kshs.2million per annum. Outpatient Kshs.100,000 per annum and last expense (self) Kshs.100,000.	

### **Appointment and Removal of Directors**

Appointment and removal of Directors are made in line with legal and statutory requirements i.e the Constitution of Kenya 2010, NMC Memorandum and Articles of Association and the State Corporations Act. The appointment takes into consideration the mix of skills and competencies required for the achievement of the Company's long-term goals.

### **Induction and Training**

The new members were not taken through a full and formal training organized by State Corporations Advisory Committee (SCAC) as required by Mwongozo to ensure they are provided with knowledge and information to enable them to add value to the Board.

However, the same is scheduled to be facilitated in FY 2023/24.

### **Succession Planning**

Under Mwongozo Code of Governance, the appointing authority is required to ensure the tenures of the Board members are staggered to ensure a phased transition.

The Chairperson, members and Managing Directors have different dates of appointment.

### **Ethics and Conduct**

The Board ensures all Board members subscribe to the code of ethics and conduct promoting ethical conduct and sanctions of misconduct.

### **Governance Audit**

The governance audit was not conducted during the period in review.

**Conflict of Interest**

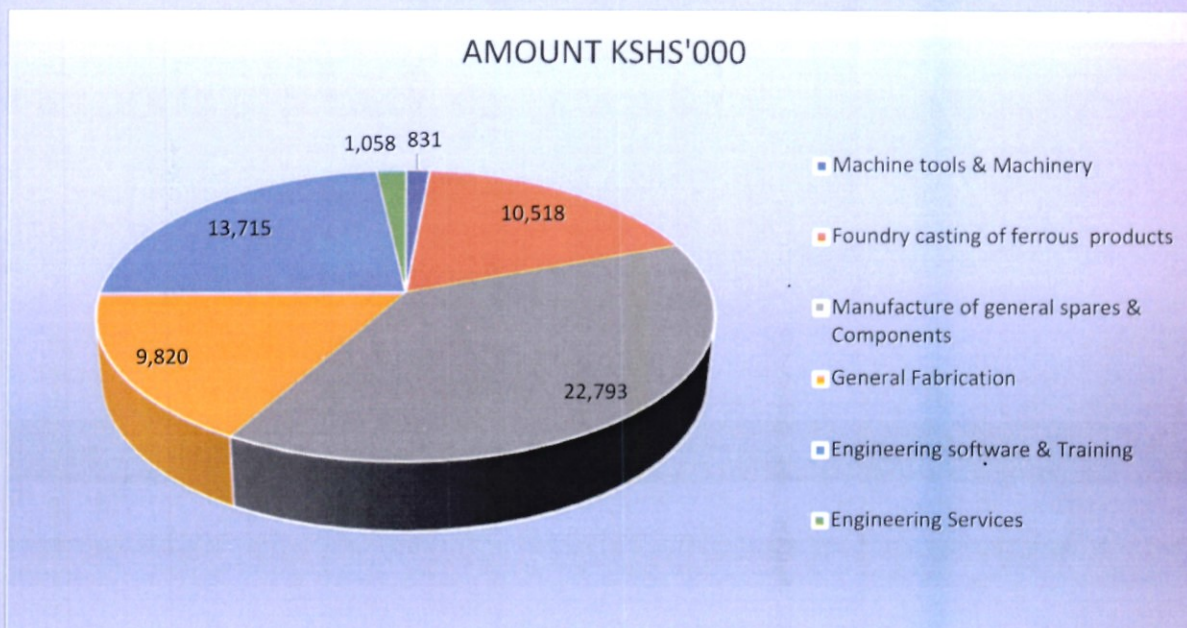
The Directors declare conflict of interest in respect to the agenda items to be discussed in every meeting. SCAC is required to undertake the governance audit in compliance with Mwongozo Code of Governance.

## 9. Management Discussion and Analysis

### Operational Performance

One of the strategies that the company employs is Government to Government procurement especially for the energy sector which has several fabrication products namely steel fittings and meter seals. NMC has six (6) business units that contributes to sales revenue.

In the year under review, the company managed to manufacture several products and offer services as shown below:

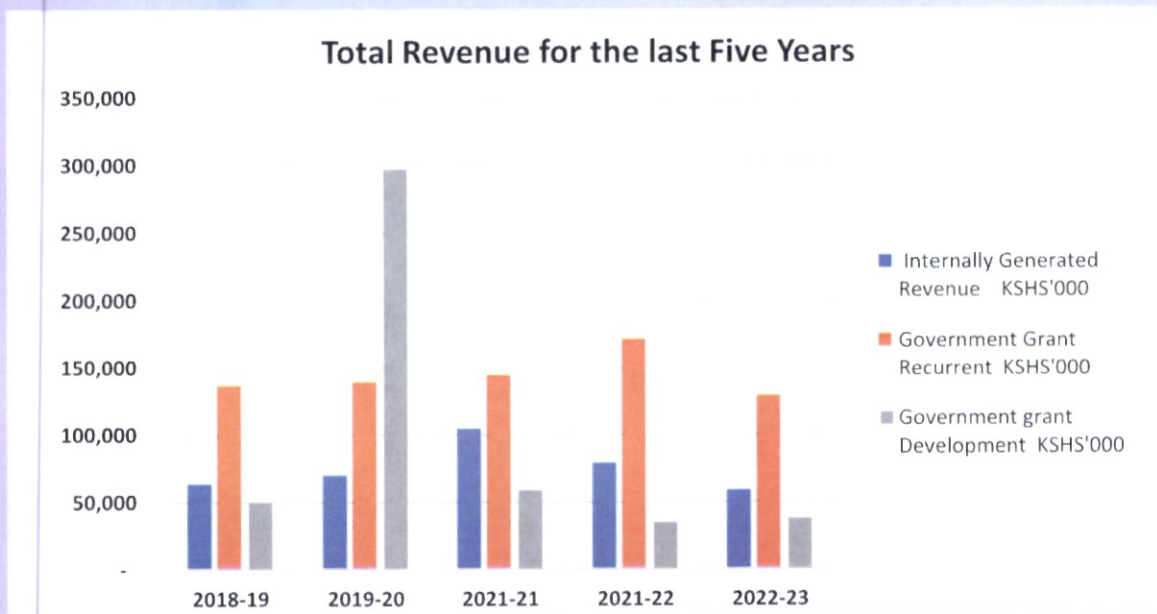


### Financial Performance

During the year under review the company's turnover decreased by 25.5% to stand at Kshs.58.7M from Kshs.78.8M reported in the FY 2022.

NMC total revenue for year ended 30th June 2023 was Kshs.225 million. This represents a drop of 27% compared to revenues received in financial year 2021-2022.

The drop was caused by budget cut both in recurrent and development grants. Additionally, the targeted internally generated revenue was not achieved due to lack of working capital to execute high value orders. To mitigate the challenge NMC applied for a loan facility to process Kenya Power order of Kshs.119m. This had not been processed by the end of the financial year.



### **NMC's key projects or investments decision implemented or ongoing,**

The company has a key project of Modernization of Foundry and CNC workshop whose estimated cost is Kshs.1.788B. Currently we have received Kshs.602m culminating to a project completion of 33.67%. The funding received has facilitated the purchase of machines and equipment during the year in review.

### **NMC's compliance with statutory requirements**

Due to budget cuts on recurrent expenditure for financial year 2022/23 the company was not able to meet its statutory obligation for the last quarter of the financial year.

**L**

### **Major Risks Facing the Organization**

#### **i. Operation risks**

This includes various factors that contributed to failures in execution of operations and may negatively affect the overall performance of the company

- a. Failure to automate our processes.
- b. Delay in disbursement of grants.
- c. Demotivated staff due to delay in salary and other staff deductions.

**ii. Financial Risks**

Risks in this category includes factors that affects internal financial operations

- a. Inability to raise adequate revenue
- b. Inability to meet financial obligations

**iii. Strategic Risks**

This risk involves the decision the company make. During the year NMC was faced by the following: -

- a. Draft strategy still awaiting approval by the board
- b. Inadequate resources to discharge its mandate

**iv. Market Risk**

This is risk associated with change of market prices which includes

- a. Depreciation of Kenyan currency against foreign currencies,
- b. Commodity prices and interest rate. NMC is currently affected by commodity prices and interest due to heavily relying on imports for machines, equipment and raw materials.

**Material Arrears in Statutory and Other Financial Obligations.**

NMC has an arrears Of Kshs.42,712,543 due to withdrawal of Kshs.50M from recurrent budget.

The Company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs. 52,282,747 being corporation tax, VAT and withholding tax. The figure includes interest and penalties which has been accrued over a long period of time.

**Review of the economy.**

The country economy has been greatly affected by the drought and inflation. Taking into account the adverse impact of the ongoing drought conditions,

inflationary pressures as well as other external pressures. The economy was projected to grow by 5.5% in 2022 and will recover to 6.1% in 2023.

### **Manufacturing Sector**

In regard to manufacturing sector, GDP is estimated to have grown by 5.5% in the first quarter of 2023 compared to 4.8% growth in the corresponding quarter of 2022, this growth if manufacturing will give opportunity for NMC to supply industrial spare parts, steel fittings, castings to the various industries.

### **Future developments**

NMC's land at Athi River can be used for establishing a green manufacturing hub as a Common User Facility (CUF) by the SMEs to design and manufacture parts and components for automotives and industries ranging from electric cars, electronics components, solar systems, machines and equipment.

Other measures put in place by management to mitigate and improve the financial performance in the coming year include: -

- Reduction of cash conversion cycle.
- Frame work contract with suppliers to ease delivery of material inputs and in conformity with PPAD Act 2015.
- Invest in machine and people to enhance production efficiencies.
- Negotiate credit terms with our main suppliers in order to improve on cash flow.

### **Any other information considered relevant to the users of the financial statements.**

NMC is sourcing for the fund to first secure the land and thereafter plan how to develop the areas to become a green manufacturing hub.

## 10. Environmental and Sustainability Reporting

### (a) Responsible competition practices

NMC practiced a set of business practices that promoted healthy market dynamics, fostered innovation, and benefited both customers and its business without resorting to unethical or anti-competitive behaviour.

#### (i) The key anti – corruption aspects practiced by NMC were:

- **Compliance with Anti-Corruption Laws:**

NMC strictly adhered to anti-corruption laws and regulations which prohibit bribery, extortion, and other forms of corruption in business transactions. NMC has a robust internal control system to prevent corrupt practices within the organizations.

- **Reporting and Whistleblower Protections:**

NMC encourages employees, suppliers, and other stakeholders to report any suspected corrupt practices. The company has developed and implemented a whistleblower protection policy that ensures that those who report corruption are safeguarded from retaliation.

#### (ii) The key aspects on NMC's responsible political involvement were:

- **Public Interest Advocacy:**

NMC advocated for policies that promote the public interest and contribute to the betterment of society. For example, the proposed bill on scrap metal.

**"NMC understands and values environmental and sustainability reporting because it plays a crucial role in promoting transparency and accountability towards the impact of business activities on the environment and society."**



- **Respecting Diversity of Opinion:**

NMC respected the diversity of political opinions among their employees, customers, and stakeholders. It avoided the appearance of coercion or pressure to align with specific political beliefs fostering a culture of inclusivity and respect.

**(iii) The key aspects on fair competition practices by NMC were:**

- **Avoided Anti-Competitive Behaviour:**

NMC refrained from engaging in anti-competitive practices such as price-fixing, bid-rigging, market allocation, or collusion.

- **Transparent Pricing and Terms:**

NMC provided transparent pricing information and terms of sale to customers on its cost sheet.

- **Quality and Safety Standards:**

NMC prioritized the quality and safety of their products and services. It invested in research and development, adhered to industry standards, and ensured their products and services meet customer expectations.

- **Respect for Intellectual Property Rights:**

NMC respected intellectual property rights, including patents, copyrights, and trademarks. For example, on the electric motor cycle, NMC did the design of the motor cycle brought in by stakeholder without violating his proprietary rights.

- **Competing on Merit:**

NMC focused on competing based on product quality, customer service, and innovation rather than engaging in unethical tactics to gain an advantage in the market.

- **Avoided Predatory Pricing:**

NMC refrained from engaging in predatory pricing, where prices are set below cost with the intent to drive competitors out of the market.

- **Accurate Advertising and Marketing:**

NMC ensured that their advertising and marketing are accurate and do not mislead consumers. During trade exhibitions held across the country, NMC provided accurate information to the potential customers.

**(iv) The key aspects on respect for competitors by NMC were:**

- **Maintaining Professionalism:**

NMC maintained professionalism in their interactions with competitors. This included adhering to ethical business practices, respecting intellectual property rights, and engaging in fair play.

- **Recognizing Competitors' Strengths:**

NMC acknowledged the strengths and achievements of their rivals. This not only promoted respect but also inspired it to strive for continuous improvement.

- **Cooperation in Industry Initiatives:**

NMC co-operated with competitors in industry initiatives, such as setting industry standards, addressing common challenges, or advocating for the interests of the sector.

**(b) Responsible supply chain and supplier relations**

NMC focused on responsible supply chain management and cultivated positive relationships with its suppliers. This demonstrated commitment to ethical standards, transparency, competitiveness, fairness, cost-effectiveness and equity in the supply chain processes.

**(i) NMC's key aspects on how it maintained good business practice:**

- **Compliance with legal requirements**

NMC supply chain management is embedded on ethical sourcing practices. It prioritized suppliers that adhere to the dictates of the Public Procurement and Asset Disposal Act, 2015 and its attendant regulations.

- **Transparency:**

NMC undertook its supply chain activities in a transparent manner by disseminating information on invitation to tenders through the Public Procurement Information Portal and the company website. The results of the tenders are also published on the same platform informing the tenderers and the general public on the outcome of the tenders.

- **Supplier Diversity and Inclusion:**

NMC emphasized on supplier diversity and inclusion promoting a more equitable business environment. NMC actively engaged with diverse suppliers, including youth-owned enterprises, women-owned enterprises, and enterprises owned by persons with special needs.

- **Risk Management:**

NMC supply chain management activities involved identifying and mitigating potential risks, such as supply disruptions. It developed and implemented risk management strategies to ensure the resilience of the supply chain. Some of the strategies deployed by NMC include: Continuous monitoring of stock levels to avert stock outs and emergency purchasing, enhancing compliance of the PPAD Act, 2015 through training and implementing.



**(ii) NMC's key aspects on how it treats its own suppliers responsibly by honouring contracts:**

- **Clear and fair contracts**

NMC engaged suppliers, service providers and contractors in a transparent manner through the public procurement information portal, clearly outlining the

terms and conditions, payment schedules, delivery expectations and any other relevant details to avoid ambiguity and potential disputes.

- **Establishing communication channels**

NMC maintained open and effective communication channels with suppliers, service providers and contractors to address any concerns, changes in requirements or unexpected changes in requirements that arose during the course of the contract. This was done through the standard tender documents where tenderers were provided with an address to communicate any issues arising out of the process.

- **Collaboration and capacity building**

NMC worked closely with suppliers to enhance their capabilities, improve quality, and align with industry best practices. The Company held a sensitization forum for its suppliers to sensitize them on the needs of NMC and on how the two can have a stronger buyer -supplier relationship.

**(iii) Respecting payment practices**

- **Timely and consistent payments**

NMC paid its suppliers promptly and consistently within agreed – upon terms. Any delayed payments to suppliers arising from unforeseen circumstances was communicated and commitment given when payment will be settled.

## 11. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June 2023 which show the state of the *company's* affairs.

### i) Principal activities

The principal activities of Numerical Machining Complex Ltd are the commercial production of steel, engineering design and development of machinery and components.

### ii) Results

The results of the company for the year ended 30<sup>th</sup> June 2023 are set out on page one (1) during the year the company made a loss of **Kshs.129,988,809** during the financial year 2022/2023 compared to **Kshs.59,193,273** in the FY2021/2022.

### iii) Directors

The members of the Board of Directors who served during the year are shown on page (xi-xiv) In accordance with Regulation of the state corporations Act (Cap 466).

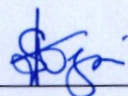
### iv) Auditors

The Auditor General is responsible for the statutory audit of Numerical Machining Complex Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

SUSAN MUNGAI

CS. Susan Mungai



Signature

23/1/24

Date

## 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 that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2023. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act)

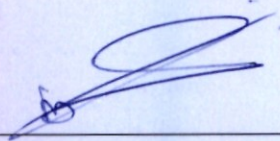
**STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)**

The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2023, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

The *entity's* financial statements were approved by the Board on 28/09/23 2023 and signed on its behalf by:



**CAPT. MUHAMED ABDI MOHAMED**  
**BOARD CHAIRMAN**



**GEORGE MAKATETO**  
**Ag. MANAGING DIRECTOR**

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE, 2023**

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### **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, the Public Finance Management Act, 2012 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**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on pages 1 to 57, which comprise of the statement of financial position as

at 30 June, 2023, and the statement of profit and 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, except for the effect of the matters described in the basis for Qualified Opinion section of my report, the financial statements present fairly the financial position of the Numerical Machining Complex 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 (IFRS) and comply with the Companies Act, 2015.

## **Basis for Qualified Opinion**

### **1.0 Investment Property**

As previously reported, and disclosed in Note 13 to the financial statements, the statement of financial position reflects Kshs.965,678,998 balance in respect to property plant and equipment which includes Kshs.290,000,000 for land. However, the following observations were made.

#### **1.1 Long Outstanding Debtors**

As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares in Movoko, Athi River. In 2001, the Company with the consent of the Government sold part of the land measuring 242.89 hectares to individuals and other entities whose titles deeds have not been wholly processed and released. The Company continued to pay rates based on the original title deed up to 2009. Further, a net amount of Kshs.6,640,310 due from individuals has remained unpaid since 2001. The recoverability of the debt therefore remained doubtful.

#### **1.2 Encroachment of Land**

The remaining portion of the unsold land measuring 460.70 hectares was not fenced and has been encroached by informal settlers and other parties who have put up permanent structures. Further, the portion of land was revalued at Kshs.290 million in 2009 and revaluation gain of Kshs.158,993,190 arising thereon approved by the Board for inclusion in the financial statements in October, 2016. However, the Company has not revalued its assets in the last thirteen (13) years to take cognizance of drastic change in value of its assets. This was contrary to International Accounting Standard No. 16 which requires that property plant and equipment be revalued after every three (3) or five (5) years. The presence of informal settlers has largely impaired the value of the land.

#### **1.3 Title Deed not Updated**

On 14 January, 2003 a new title deed was issued to the Company for a parcel of land measuring approximately 202.4 hectares which did not match the actual size of the land

of 460.70 hectares. A letter from the Ministry of Lands dated 17 February, 2009 indicated that the title had been subdivided and new Land Reference numbers (LR's) given, however Management did not provide the new title deed for audit.

In the circumstances, the accuracy, ownership, valuation and security of the land balance of Kshs.290,000,000 could not be confirmed.

## **2.0 Lack of a Fixed Assets Register**

The statement of financial position and as disclosed under Note 13 to the financial statements, reflects Kshs.965,678,998 in respect to net book value balance of property, plant and equipment. However, the balance was not supported with a fixed asset register indicating the address, area, dates of acquisition, capital expenditure and other pertinent details as required under Regulation 143(1) of Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the audit could not confirm that the assets of the Company had been properly safeguarded and that the reported property, plant and equipment balance of Kshs.965,678,998 was fairly stated.

## **3.0 Trade and Other Payables**

As previously reported, Note 22 to the financial statements reflects a balance of Kshs.215,613,602 relating to trade and other payables. However the following observations were made:-

### **3.1 Long Outstanding Payables**

As previously reported, Note 22 to the financial statements reflects a balance of Kshs.53,782,747 relating to other payables. Included in the balance is an amount of Kshs.52,000,000 relating to tax liability following tax assessment by Kenya Revenue Authority that has been outstanding since 1999 and continued to attract penalties and interest.

### **3.2 Unsupported Trade Balances**

The trade and other payables balance includes Kshs.82,183,431 comprising of Kshs.3,000,000, Kshs.5,667,261, Kshs.3,490,647, Kshs.57,034,782 and Kshs.12,990,741 in respect of University of Nairobi advances, sundry creditors, withholding tax, accrued gratuity and staff expenses respectively for which supporting documents were not provided.

### **3.3 Undeclared Trade Payables**

As previously reported, the Company received orders for manufacture of machines for the Constituency Industrial Development Centres worth Kshs.26,597,000 some years

back. However, review of the records showed that as the time of audit, the Company had produced goods worth Kshs.9,496,329 against paid up orders of Kshs.26,597,000 resulting to an amount of Kshs.17,100,671 still owed to the State Department for Industrialization. These liabilities had not been reported in the Company's financial statements under trade payables as at 30 June, 2023.

In the circumstances, the accuracy and completeness of trade payables balance of Kshs.215,613,602 could not be confirmed.

#### **4.0 Unsupported Trade and Other Receivables**

As previously reported, and as disclosed in Note 16 to the financial statements, the statement of financial position reflects a balance of Kshs.112,387,196 for trade and other receivables. The amount was net of provision for bad and doubtful debts of Kshs.55,215,962. However, the following observations were made: -

- (i) The balance included staff receivables amount of Kshs.1,071,255 for salaries advances from staff who have since left the Company's service and other receivables of Kshs.34,253,215 whose analysis was not provided for audit verification.
- (ii) As previously reported, the deposits and prepayments includes as amount of Kshs.1,544,762 relating to deposits for tenders and performance bonds the Company participated in, however evidence in support of the long outstanding balances was not provided for review.
- (iii) Included in trade receivables is a debt of Kshs.17,019,282 due from a local Company, whose recoverability was doubtful. Further, Management did not provide analysis of the provision for bad and doubtful debts balance of Kshs. 55,215,962.
- (iv) The balance is net of credit balances of Kshs.2,865,830. This is contrary to the provisions of Paragraph 32 of the International Accounting Standard (IAS) No. 1 which states that an entity should not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS. This negative balance that reduced the trade and other receivables balance by an equivalent amount was not explained.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.112,387,196 could not be confirmed.

#### **5.0 Material Uncertainty in Relation to Going Concern**

As previously reported, the statement of profit and loss and other comprehensive income reflects a loss of Kshs.129,988,809 (2021/2022 loss Kshs.59,193,273) during the year under audit. The loss together with a prior year adjustment of Kshs.57,988,041 increased the accumulated loss from Kshs.1,726,117,837 to Kshs.1,798,118,605 as at

30 June, 2023. However, Management has not explained and provided evidence to show how the Company intends to turn into profitability.

In the absence of the actions being taken to reverse this loss-making trend, the Company's continued existence is dependent upon the financial support of the Government and its creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Numerical Machining Complex Limited Management 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 qualified opinion.

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.316,830,000 against actual receipts on comparable basis of Kshs.186,858,527 resulting into a short fall of Kshs.129,971,473 or 41% of the budget.

The shortfall of the receipts affected the planned activities of the Company and may have impacted negatively on services delivery to the public.

My opinion is not modified in respect of this matter.

### **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 Matter**

#### **Unresolved Prior Year Matters**

In the audit report of previous years, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues as at 30 June, 2023.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, except for the effect of matter described in the Basis for Report on Lawfulness and Effectiveness in Use of Public Resources, 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**

#### **Failure to Deliver on Tender for Supply of MV & HV Fittings to KPLC**

The Company entered into a contract to supply the Kenya Power and Lighting Company (KPLC) with MV & HV Fittings through tender No. KPL/9A.3/DT/09/21-22 on 27 October, 2022. The Tender period was for 12 months to 26 October, 2023 and the total tendered fittings amount was Kshs.138,745,657. As at the time of the audit, the Company had only delivered fittings worth Kshs.66 million or 47% of the tendered amount while the tender period had lapsed.

This is contrary to Section 79(1) (b) (i) (ii) of the Public Finance Management Act which requires a public officer employed in a National Government state organ or public entity to ensure that the resources within the officer's area of responsibility are used in a way which is lawful and authorized, is effective, efficient, economical and transparent.

In the circumstances, the management was in breach of the law.

### **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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 effective 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, 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 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 overall 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 or to cease its operations.

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 the 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 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 Company's 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 Gathungu, CBS  
AUDITOR-GENERAL

**Nairobi**

**01 February, 2024**

#### 14. Statement of Profit and Loss and Other comprehensive income for the year ended 30<sup>th</sup> June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Revenues</b>			
Revenue from Contracts with Customers	6	58,736,027	78,826,643
Cost of sales	7	(153,526,679)	(158,605,148)
<b>Gross profit</b>		<b>(94,790,652)</b>	<b>(79,778,506)</b>
<b>Other income</b>			
Grants from the national government	8	224,400,117	252,808,787
Other income	9	218,352	130,081
<b>Total revenues</b>		<b>129,827,817</b>	<b>173,160,362</b>
<b>Operating expenses</b>			
Administration costs	10	(249,002,259)	(220,250,572)
Selling and distribution costs	11	(10,814,367)	(12,103,063)
<b>Total operating expenses</b>	12	<b>(259,816,626)</b>	<b>(232,353,635)</b>
<b>Profit/(loss) before taxation</b>		<b>(129,988,809)</b>	<b>(59,193,273)</b>
<b>Income tax expense/(credit)</b>		0	0
<b>Profit/(loss) after taxation</b>		<b>(129,988,809)</b>	<b>(59,193,273)</b>
Earnings per share – basic and diluted		0	0
Dividend per share		0	0
<b>Other comprehensive income</b>			
<b>Profit/ (loss) after taxation</b>		0	0

<b>Description</b>	<b>Note</b>	<b>2022-2023</b>	<b>2021-2022</b>
		<b>Kshs</b>	<b>Kshs</b>
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
<b>Total comprehensive income for the year</b>		<b>(129,988,809)</b>	<b>(59,193,273)</b>

## 15. Statement of Financial Position as at 30 June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, Plant And Equipment	13	965,678,998	230,590,826
Investment Property	14	0	290,000,000
<b>Total Non-Current Assets</b>		<b>965,678,998</b>	<b>520,590,826</b>
<b>Current Assets</b>			
Inventories	15	116,955,653	75,966,022
Trade And Other Receivables	16	112,387,196	89,509,647
Bank And Cash Balances	17	1,490,140	156,779,424
<b>Total Current Assets</b>		<b>230,832,989</b>	<b>322,255,093</b>
<b>TOTAL ASSETS</b>		<b><u>1,196,511,987</u></b>	<b><u>842,845,919</u></b>
<b>Equity And Liabilities</b>			
<b>Capital And Reserves</b>			
Ordinary Share Capital	18	1,214,024,646	1,214,024,646
Revaluation Reserve	19	598,387,541	158,993,190
Retained Earnings	20	(1,798,118,605)	(1,726,117,837)
Capital	21	966,604,803	1,024,882,420
Proposed Dividends		0	0
<b>Capital and Reserves</b>		<b>980,898,385</b>	<b>736,408,085</b>

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Non-Current Liabilities</b>			
<b>Total Non-Current Liabilities</b>		0	0
<b>Current Liabilities</b>			
Trade And Other Payables	22	215,613,602	171,063,501
<b>Total Current Liabilities</b>		<b>215,613,602</b>	<b>171,063,501</b>
<b>Total Equity and Liabilities</b>		<b><u>1,196,511,987</u></b>	<b><u>842,845,919</u></b>

The financial statements were approved by the Board on 30/09/2023 2023 and signed on its behalf by:

.....  
 Name: George Makotets  
 Director  
 General/C.E.O/M.D

.....  
 Name: **Patrick Kariuki**  
 Head of Finance  
 ICPAK M/NO: 11770

.....  
 Name: Capt Muhamud Ali  
 Chairman of the Board

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

Description	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/Development Grants/Fund	Total
As at July 1, 2021	1,214,024,646	158,993,190	0	(1,666,924,564)	0	1,071,861,207	777,954,479
Profit for the year	-	-	-	(59,193,273)	-	-	(59,193,273)
Capital/development grants received during the year	-	-	-	-	-	35,000,000	35,000,000
Transfer of depreciation/amortization from capital fund to retained earnings	-	-	-	-	-	(81,978,787)	(81,978,787)
<b>As of June 30, 2022</b>	<b>1,214,024,646</b>	<b>158,993,190</b>	<b>0</b>	<b>(1,726,117,837)</b>	<b>0</b>	<b>1,024,882,420</b>	<b>671,782,419</b>
<b>As at July 1, 2022</b>	<b>1,214,024,646</b>	<b>158,993,190</b>	<b>0</b>	<b>(1,726,117,837)</b>	<b>0</b>	<b>1,024,882,420</b>	<b>671,782,419</b>
Revaluation gain	-	439,394,351	-	-	-	-	439,394,351
Prior period adjustment	-	-	-	57,988,041	-	-	57,988,041
Profit for the year	-	-	-	(129,988,809)	-	-	(129,988,809)
Capital/development grants received during the year	-	-	-	-	-	38,000,000	38,000,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(96,277,617)	(96,277,617)
<b>At June 30, 2023</b>	<b>1,214,024,646</b>	<b>598,387,541</b>	<b>0</b>	<b>(1,798,118,605)</b>	<b>0</b>	<b>966,604,803</b>	<b>980,898,385</b>

*Note:*

1. NMC did valuation of asset and gain on the revaluation is credited to revaluation reserves
2. Prior year adjustment relates to write back of expenditure/ liabilities which has been in our book erroneously

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

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Cash generated from/(used in) operations</b>	23	5,482,094	38,711,604
Taxation paid		0	0
<b>Net cash generated from/(used in) operating activities</b>		5,482,094	38,711,604
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(113,569,863)	(47,551,976)
<b>Net cash generated from/(used in) investing activities</b>		(113,569,863)	(8,840,372)
<b>Cash flows from financing activities</b>			
Increase in capital grants		(47,201,515)	(46,987,786)
<b>Net cash generated from/(used in) financing activities</b>		(47,201,515)	(46,987,786)
<b>Increase/(decrease) in cash and cash equivalents</b>		(155,289,284)	(55,819,158)
<b>Cash and cash equivalents at beginning of year</b>		156,779,424	212,598,582
<b>Cash and cash equivalents at end of the year</b>	17	1,490,140	156,779,424

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

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	a	B	c = a + b	d	E= c - d	d/c%
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	%
Sale of goods	146,000,000	0	146,000,000	58,736,027	-87,263,973	40%
Transfers from the government	170,830,000	0	170,830,000	128,122,500	-42,707,500	75%
<b>Total income</b>	<b>316,830,000</b>	<b>0</b>	<b>316,830,000</b>	<b>186,858,527</b>	<b>-129,971,473</b>	<b>59%</b>
<b>Expenses</b>						
Compensation of employees	183,421,861	0	183,421,861	177,090,583	-6,331,278	97%
Use of goods and services	2,000,000	0	2,000,000	38,120	-1,961,880	2%
Other payments	128,844,346	0	128,844,346	139,818,633	10,974,287	109%
Grants and subsidies paid	0	0	0	0	0	0%
<b>Total expenditure</b>	<b>314,266,207</b>	<b>0</b>	<b>314,266,207</b>	<b>310,154,094</b>	<b>-4,112,113</b>	<b>99%</b>
<b>Surplus for the period</b>	<b>2,563,793</b>	<b>0</b>	<b>2,563,793</b>	<b>-129,988,809</b>	<b>-132,552,602</b>	<b>-4809%</b>
<b>Capital Expenditure</b>	<b>82,000,000</b>	<b>-44,000,000</b>	<b>38,000,000</b>	<b>10,000,000</b>	<b>-28,000,000</b>	<b>26%</b>

**1. Sale of goods**

The company did not achieve 60% of the projected revenues. These revenues were to be generated from diversified product lines. This was affected by cash inflow inadequacy and most of the work was under work in progress by the end of financial year. Budget cut also attributed to this loss as fund meant for operation were diverted to payments of staff salaries after 4<sup>th</sup> quarter grants meant to pay salaries were cut.

**2. Transfer from the Government**

Consumption of production materials had a variance of 25%. This is occasioned by budget cut of recurrent grants amounting to Kshs.42,707,500 low levels of production in the year under review.

**3. Development account**

During the year under review, the company projected by 72%. This was as a result of budget cuts by the National Government.

## 19. Notes to the Financial Statements

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### 1. General Information

Numerical Machining Complex Ltd is established by and derives its authority and accountability from the Companies Act. The company is wholly owned by the Government of Kenya through 49% of equity held by Kenya Ship yard Ltd and 51% held by Kenya Railways Corporation and is domiciled in Kenya. The company's principal activity is the commercial production of steel, engineering design and development of machinery and components.

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 except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company'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 company.

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

## 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
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, 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. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.  The standard is not relevant to NMC Ltd for FY 2022/23).
IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, 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.  <i>(entity to state the effect of amendments on their financial statements for the year ended.)</i>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.  The standard is relevant to NMC Ltd for FY 2022/23).

Title	Description	Effective Date
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.  The standard is not relevant to NMC Ltd for FY 2022/23)
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, 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 amendments are effective for annual periods beginning on or after January 1, 2023.  The standard is not relevant to NMC Ltd for FY 2022/23)

***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.***

iii. *Early adoption of standards*

*The entity did not early – adopt any new or amended standards in year 2022/2023*

**Notes to the Financial Statements (Continued)**

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

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

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, 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, 2023. Earlier application is permitted. The standard is not relevant to NMC Ltd for FY 2022/23)
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. The standard is not relevant to NMC Ltd for FY 2022/23)
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

Title	Description	Effective Date
	at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	

*(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**

The entity did not early – adopt any new or amended standards in year 2022/2023

## Notes to the Financial Statements (Continued)

### 4. Summary of Accounting Policies

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

**a) Revenue recognition**

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

- i) Revenue from the sale of goods and services** is recognized in the year in which the *entity* 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 *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital 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.
- iii) Finance income** comprises 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) Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) Rental income** is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) Other income** is recognized as it accrues.

## Notes to the Financial Statements (Continued)

### Summary of Accounting Policies

#### b) In-kind contributions

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

#### c) Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

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

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

**Notes to the Financial Statements (Continued)****Summary of Accounting Policies****d) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

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 or the re-valued amount to its residual value over its estimated useful life. The annual rates in use, as guided by National Treasury policy on assets depreciation are:

Freehold Land	Nil
Buildings and civil works period	50years or 2% the unexpired lease period
Plant and machinery	8 years or 12.5%
Motor vehicles, including motor cycles	5 years or 20%
Computers and related equipment	3 years or 33.33%
Office equipment, furniture and fittings	8 years or 12.5%

A full year's depreciation charge is recognised both 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 recognised so that the asset is written down immediately to its estimated recoverable amount.

## Notes to the Financial Statements (Continued)

### Summary of Accounting Policies

**e) Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**f) Amortization and impairment of intangible assets**

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**g) Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the

disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

## Notes to the Financial Statements (Continued)

### Summary of Accounting Policies

#### **h) Right of Use Asset**

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

#### **i) Fixed interest investments (bonds)**

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. These bonds are measured at amortized cost/ at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL)

**j) Quoted investments**

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value through profit or loss (FVTPL).

**k) Unquoted investments**

Unquoted investments are measured at fair value through profit or loss (FVTPL). *(Entity to elaborate how this fair value is obtained)*

*Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.*

**l) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**m) Trade and other receivables**

Trade and other receivables are recognised 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.

## Notes to the Financial Statements (Continued)

### Summary of Accounting Policies

#### n) 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.

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.

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.

##### o) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

## **Notes to the Financial Statements (Continued)**

### **Summary of Accounting Policies**

#### **Deferred Tax**

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Notes to the Financial Statements (Continued)

### Summary of Accounting Policies

#### p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks 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 authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**r) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

**s) Trade and other payables**

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

**t) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2020. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at based on Tier 1 & 11 per employee per month.

**u) Provision for staff leave pay**

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

**v) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings.

Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

## **Notes to the Financial Statements (Continued)**

### **Summary of Accounting Policies**

#### **w) Budget information**

The original budget for FY 2022-2023 was approved by the National Assembly on 24/08/2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded reduced appropriations of 50,000,000 on the FY 22/23 budget following the governing body's approval.

## **Notes to the Financial Statements (Continues)**

### **Summary of Accounting Policies**

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on 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.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 18 of these financial statements.

## **Notes to the Financial Statements (Continues)**

### **Summary of Accounting Policies**

#### **a) Service concession arrangements**

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

#### **b) Comparative figures**

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

#### **c) 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 Entity's 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.

State all judgements, estimates and assumptions made: e.g. value of the land

### **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. The Entity 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 circumstances arising beyond the control of the Entity. 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 the Entity
- 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 were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

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.

(include provisions applicable for your organization e.g. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

**Notes to the Financial Statements (Continues)****6. Revenue from contract with customers**

Description	2022/2023	2021/2022
	Kshs	Kshs
Manufacture of Machine tools	830,862	179,529
Casting of ferrous foundry products	10,518,261	9,549,137
Manufacture of general spares & Components	22,792,864	17,044,523
General Fabrication	9,820,446	37,195,046
Training & Sale of Engineering software	13,715,270	14,483,447
Engineering Services	1,058,324	374,961
<b>Total</b>	<b>58,736,027</b>	<b>78,826,643</b>

**7. Cost of Sales**

Description	2022/2023	2021/2022
	Kshs	Kshs
Cost of sales on goods	40,185,087	52,871,726
Cost of sales-Direct labour	96,446,160	90,195,180
Cost of sales on services-Electricity	16,689,914	15,264,248
Cost of sales on services-Water	205,518	273,994
<b>Total</b>	<b>153,526,679</b>	<b>158,605,148</b>

**8. Grants from National Government**

Description	2022/2023	2021/2022
	Kshs	Kshs
Reccurent grants received	128,122,500	170,830,000
Capital grants realized (see note below)	96,277,617	81,978,787
In kind contributions/ donations		
<b>Total</b>	<b>224,400,117</b>	<b>252,808,787</b>

**Notes to the Financial Statements (Continued)**

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Insert Current FY Kshs	Insert Comparative FY Kshs
Ministry of Industry, Trade & Enterprise Development	128,122,500	96,277,617	38,000,000	262,400,117	309,487,787
<b>Total</b>	<b>128,122,500</b>	<b>96,277,617</b>	<b>38,000,000</b>	<b>262,400,117</b>	<b>309,487,787</b>

**9. Other Income**

Description	2022/2023	2021/2022
	Kshs	Kshs
Other miscellaneous receipts	218,352	130,081
<b>Total</b>	<b>218,352</b>	<b>130,081</b>

**Notes to the Financial Statements (Continued)****10. (a) Administration Costs**

Description	2022/2023	2021/2022
	Kshs	Kshs
Staff costs (note 10b)	71,866,119	68,886,806
Directors' emoluments	4,615,973	2,290,387
Electricity and water	2,059,953	1,787,359
Communication services and supplies	920,756	1,075,256
Transportation, travelling and subsistence	854,336	3,757,006
Advertising, printing, stationery and photocopying	477,716	657,446
Staff training expenses	3,776,366	11,803,499
Hospitality supplies and services	2,054,147	2,190,150
Insurance costs	1,028,519	998,795
Staff medical costs	16,547,811	17,443,609
Bank charges and commissions	618,584	677,185
Office and general supplies and services	2,541,249	2,388,451
Auditors' remuneration	1,898,276	600,000
Legal fees	304,981	3,906,990
Repairs and maintenance	4,466,530	6,450,871
Provision for bad and doubtful debts	24,669,912	1,294,652
Depreciation	96,799,940	72,221,181
Other operating expenses	13,501,091	21,820,929
<b>Total</b>	<b>249,002,259</b>	<b>220,250,572</b>

**Notes to the Financial Statements (Continued)****10(b) Staff Costs**

Description	2022/2023	2021/2022
	Kshs	Kshs
Salaries and allowances of permanent employees	157,499,402	143,232,810
Wages of temporary employees	7,803,382	5,304,197
Medical insurance schemes	0	0
Employer's contributions to national social security schemes	813,520	310,000
Employer's contributions to pension scheme	8,931,072	8,651,979
Leave pay	0	0
Gratuity provisions	837,000	1,116,000
Fringe benefit tax	0	0
Staff welfare	1,206,207	467,000
<b>Total</b>	<b>177,090,583</b>	<b>159,081,986</b>
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – management	9	9
Permanent employees – unionisable	112	117
Temporary and contracted employees	15	3
<b>Total</b>	<b>136</b>	<b>128</b>

**11. Selling and Distribution Costs**

Description	2022/2023	2021/2022
	Kshs	Kshs
Salaries and wages of Sales personnel	8,778,304	9,041,793
Marketing and Promotional expenses	2,036,063	3,061,270
<b>Total</b>	<b>10,814,367</b>	<b>12,103,063</b>

**Notes to the Financial Statements (Continued)****12. Operating Profit/ (Loss)**

Description	2022/2023	2021/2022
	Kshs	Kshs
<b>The operating profit/(loss) is arrived at after charging/(crediting):</b>		
Staff costs (note 10b)	71,866,119	68,886,806
Selling and distribution Expenses	10,814,367	12,103,063
Other Administration costs	49,152,039	74,957,546
Depreciation of property, plant and equipment	96,799,940	72,221,181
Provision for bad and doubtful debts	24,669,912	1,294,652
Directors' emoluments – fees	4,077,900	1,573,000
- other	538,073	717,387
Auditors' remuneration - current year fees	1,898,276	600,000
	<b>259,816,626</b>	<b>232,353,635</b>

**Notes to the Financial Statements (Continued)****13. Property, Plant and Equipment**

<b>Description</b>	<b>Land</b>	<b>Buildings &amp; civil works</b>	<b>Plant and machinery</b>	<b>Motor vehicles, including, motor cycles</b>	<b>Computers &amp; related equipment</b>	<b>Office equipment, furniture &amp; fittings</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Cost after valuation</b>							
<b>At July 1, 2022</b>	290,000,000	63,820,368	0	0	0	0	353,820,368
Revaluation 15 <sup>th</sup> Jan 2022	0	0	569,466,000	4,300,000	15,674,600	5,193,600	594,634,200
Additions 2021/2022	0	0	23,633,760	0	471,914	255,500	24,361,174
Additions 2022/2023	0	7,245,321	103,778,783	0	2,505,760	39,999	113,569,863
<b>At June 30, 2023</b>	<b>290,000,000</b>	<b>71,065,689</b>	<b>696,878,543</b>	<b>4,300,000</b>	<b>18,652,274</b>	<b>5,489,099</b>	<b>1,086,385,605</b>
<b>Depreciation</b>							
At July 1, 2022	0	23,906,667	0	0	0	0	23,906,667
Charge for the year	0	1,421,314	87,531,849	860,000	6,296,077	690,700	96,799,940
<b>At June 30, 2023</b>	<b>0</b>	<b>25,327,981</b>	<b>87,531,849</b>	<b>860,000</b>	<b>6,296,077</b>	<b>690,700</b>	<b>120,706,607</b>
<b>Net book value at June 30, 2023</b>	<b>290,000,000</b>	<b>45,737,708</b>	<b>609,346,694</b>	<b>3,440,000</b>	<b>12,356,197</b>	<b>4,798,399</b>	<b>965,678,998</b>

**Notes To The Financial Statements (Continued)****Property, Plant and Equipment (Continued)**

<b>Description</b>	<b>Buildings &amp; civil works</b>	<b>Plant and machinery</b>	<b>Motor vehicles, including, motor cycles</b>	<b>Computers &amp; related equipment</b>	<b>Office equipment, furniture &amp; fittings</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Cost or valuation</b>							
As at 1 <sup>st</sup> July 2021	59,294,829	1,275,825,758	27,181,661	72,755,878	9,377,363	11,076,103	1,455,511,592
Additions	4,525,539	38,125,808	0	3,213,511	1,687,118	0	47,551,976
<b>As at 30<sup>th</sup> June 2022</b>	<b>63,820,368</b>	<b>1,313,951,566</b>	<b>27,181,661</b>	<b>75,969,389</b>	<b>11,064,481</b>	<b>11,076,103</b>	<b>1,503,063,568</b>
<b>Depreciation</b>							
<b>At July 1, 2021</b>	<b>22,630,260</b>	<b>1,070,689,726</b>	<b>27,181,661</b>	<b>70,562,727</b>	<b>9,187,186</b>	<b>11,076,103</b>	<b>1,200,251,560</b>
Charge for the year	1,276,407	68,175,832		2,249,831	519,112	0	72,221,181
<b>As at 30<sup>th</sup> June 2022</b>	<b>23,906,667</b>	<b>1,138,865,558</b>	<b>27,181,661</b>	<b>72,812,558</b>	<b>9,706,298</b>	<b>0</b>	<b>1,272,472,741</b>
<b>Net book value at June 30, 2022</b>	<b>39,913,701</b>	<b>175,086,007</b>	<b>0</b>	<b>3,156,832</b>	<b>1,358,184</b>	<b>11,076,103</b>	<b>230,590,827</b>

**Notes To The Financial Statements (Continued)****Valuation**

Land and buildings were valued at Kshs 17 Billion by SG Shelters Spear properties limited, an independent valuer on open market value basis on 18<sup>th</sup> January, 2022 **basis of valuation**. These amounts were not adopted as the company is waiting for court determination on ownership.

**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
Land	290,000,000	0	290,000,000
Buildings	71,065,689	25,327,981	45,737,708
Plant And Machinery	1,417,730,348	1,219,990,538	197,739,810
Motor Vehicles, Including Motorcycles	27,181,661	27,181,661	0
Computers And Related Equipment	78,745,149	75,733,474	2,741,675
Office Equipment, Furniture, And Fittings	11,104,481	9,990,434	1,114,046
	<b>1,895,827,328</b>	<b>1,358,224,088</b>	<b>537,333,239</b>

**Notes To The Financial Statements (Continued)****14. Investment Property**

	<b>Kshs</b>	<b>Kshs</b>
<b>Opening Valuation</b>	<b>290,000,000</b>	<b>290,000,000</b>
<b>Movements During The Year</b>		
Additions	0	0
Disposals	(290,000,000)	0
Fair Value Gains/(Losses)	0	0
<b>Closing Valuation</b>	<b>0</b>	<b>290,000,000</b>
<b>Depreciation (If At Cost)</b>		
<b>At July 1</b>	0	0
<b>At June 30</b>	<b>0</b>	<b>0</b>
<b>Net Book Value</b>		
At June 30	<b>0</b>	<b>290,000,000</b>

The company has an investment of 703.59 Hectares of Land at Athi River. Out of this a total of 242.89 Hectares has been sold leaving a balance of 460.70 Hectares as investment in property worth Kshs 131,006,810. The property was valued in 1995 and this does not reflect the actual fair market value of the property. A revaluation by the Ministry of Lands to Kshs. 290 million done in 2009 has been included in the financial statements after the same had been adopted by Board of Directors. The value of land has since been transferred to Property plant and Equipment.

**Notes to the financial statements (continued)****15. Inventories**

Description	2022-2023	2021-2022
	Kshs	Kshs
CNC Engineering stores	96,952,046	46,184,193
Foundry Engineering stores	19,413,225	28,775,291
Stationery and general stores	590,382	1,006,539
<b>Total</b>	<b>116,955,653</b>	<b>75,966,023</b>

**16. Trade and Other Receivables**

Description	2022-2023	2021-2022
	Kshs	Kshs
Trade Receivables (Note 16 (a))	89,019,671	88,688,633
Deposits and prepayments	23,443,827	12,074,192
Vat recoverable	17,391,464	8,405,404
Staff receivables (Note 16 (c))	3,494,981	4,134,253
Other receivables	34,253,215	6,753,215
<b>Gross Trade and Other Receivables</b>	<b>167,603,158</b>	<b>120,055,697</b>
Provision for Bad and Doubtful Receivable	(55,215,962)	(30,546,050)
<b>Net Trade and Other Receivables</b>	<b>112,387,196</b>	<b>89,509,647</b>

**16 (a) Trade Receivables**

Description	2022/2023	2021-2022
	Kshs	Kshs
Gross Trade Receivables	89,019,671	88,688,633
Provision for Doubtful Receivables	(55,215,962)	(30,546,050)
<b>Net Trade Receivables</b>	<b>33,803,709</b>	<b>58,142,583</b>
<b>At June 30, the ageing analysis of gross Trade Receivables</b>		
Less than 30 Days	5,602,531	6,711,089
Between 30 and 60 Days	2,533,334	(186,615)

Between 61 and 90 Days	1,935,206	934,126
Between 91 and 120 Days	1,798,122	2,046,476
Over 120 Days	77,150,478	79,183,556
<b>Total</b>	<b>89,019,671</b>	<b>88,688,633</b>

### 16 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2022-2023	2021-2022
	Kshs	Kshs
At the beginning of the year	89,019,671	88,688,633
Additional provisions during the year	(55,215,962)	(30,546,050)
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	<b>33,803,709</b>	<b>58,142,583</b>

### 16 (c) Staff Receivables

Description	2022/2023	2021-2022
	Kshs	Kshs
Gross staff loans and advances	3,494,981	4,134,253
Provision for impairment loss	(2,423,726)	(2,423,726)
Net staff loans	<b>1,071,255</b>	<b>1,710,527</b>
Less: Amounts due within one year	(1,071,255)	(1,710,527)
Amounts due after one year	0	0

### 17. Bank and Cash Balances

Description	2022/2023	2021-2022
	Kshs	Kshs
Cash at bank	1,490,140	156,779,424
Cash in hand	0	0
<b>Total</b>	<b>1,490,140</b>	<b>156,779,424</b>

### 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
<b>a) Current Account</b>			
KCB Bank Ltd	1107169453	1,531,920	5,048,160
KCB Bank Ltd	1127662244	-45,984	151,367,882
KCB Bank Ltd	1271475049	4,504	363,382
<b>Total</b>		<b>1,490,140</b>	<b>156,779,424</b>

**Detailed analysis of the cash and cash equivalents****18. Ordinary Share Capital**

Description	2022-2023	2021-2022
	Kshs	Kshs
<b>Authorized:</b>		
75,000,000 ordinary shares of Kshs.10 par value each	<b>750,000,000</b>	<b>750,000,000</b>
<b>Issued and Fully paid:</b>		
75,000,000 ordinary shares of Kshs. par value each	<b>750,000,000</b>	<b>750,000,000</b>

The shares are owned by 2 entities i.e., Kenya Railways Corporation and Kenya Shipyard Limited consisting of 38,250,000 and 36,750,000 shares respectively

**Notes To The Financial Statements (Continued)****19. Revaluation Reserve**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**20. Fair Value Adjustment Reserve**

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

**21. Retained Earnings**

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

**22. Trade and Other Payables**

Description	2022/2023	2021-2022
	Kshs	Kshs
Trade payables	118,352,821	30,714,091
Accrued expenses	9,427,776	74,389,400
Retention/ Contract monies	0	0
Deposits	0	0
Employee payables	34,050,258	0
Other payables	53,782,747	65,960,009
<b>Total</b>	<b>215,613,602</b>	<b>171,063,501</b>

**Notes to the Financial Statements (Continued)****23. Notes to the Statement of Cash Flows**

Description	2022-2023	2021-2022
	Kshs	Kshs
<b>(a) Reconciliation Of Operating Profit/(Loss) To Cash Generated From/(Used In) Operations</b>		
Profit or Loss before tax	(129,988,809)	(59,193,273)
Depreciation	96,799,940	72,221,181
Amortization	0	0
Prior Period Adjustment	57,988,041	0
Operating Profit/(Loss) before Working Capital changes	<b><u>24,799,172</u></b>	<b><u>13,027,908</u></b>
(Increase)/Decrease in Inventories	(40,989,631)	(9,239,833)
(Increase)/Decrease in Trade and Other Receivables	(22,877,549)	49,287,260
Increase/(Decrease) in Trade and Other Payables	44,550,102	(14,363,731)
Increase/(Decrease) in Retirement Benefit Obligations	0	0
Increase/(Decrease) in Provision for Staff Leave Pay	0	0
Cash Generated from/(used In) operations	<b>5,482,094</b>	<b>38,711,604</b>
<b>(b) Analysis of Cash and Cash equivalents</b>		
Cash At Bank	156,779,424	156,779,424
Cash In Hand		0
Balance At End Of The Year	<b>1,490,140</b>	<b>156,779,424</b>

**Notes To The Financial Statements (Continued)****24. Related Party Disclosures****Government of Kenya**

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity*'s equity interest.

**Transactions with related parties**

Description	2022-2023	2021-2022
	Kshs	Kshs
<b>a) Sales to related parties</b>		
Sales of electricity to govt agencies	0	0
Rent income from govt. agencies	0	0
Water sales to govt. agencies	0	0
Interest income from govt commercial banks	0	0
Interest income from bills and bonds	0	0
Others ( <i>specify</i> )	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>b) Purchases from related parties</b>		
Purchases of electricity from KPLC	0	0
Purchase of water from govt service providers	0	0
Rent expenses paid to govt agencies	0	0
Training and conference fees paid to govt. Agencies	0	0
Bank charges paid to govt commercial banks	0	0
Interest expense to investments by other govt. Entities	0	0
Others ( <i>specify</i> )	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>c) Grants from the government</b>		
Grants from national govt	166,122,500	205,830,000
Grants from county government	0	0
Donations in kind	0	0
<b>Total</b>	<b>166,122,500</b>	<b>205,830,000</b>

Description	2022-2023	2021-2022
	Kshs	Kshs
<b>d) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for xxx employees	0	0
Payments for goods and services for xxx	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>e) Key management compensation</b>		
Directors' emoluments	0	0
Compensation to key management	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

### 25. Capital Commitments

Capital commitments at the year- end for which no provision has been made in these financial statements are:

Description	2022-2023	2021-2022
	Kshs	Kshs
Amounts authorised and Contracted for	38,000,000	35,000,000
Amounts authorized but Not Contracted for	0	0
Less: Amounts included in Work In Progress	0	0
	<b>38,000,000</b>	<b>35,000,000</b>

### 26. Contingent Assets and Liabilities

#### Contingent Liabilities

Description	2022-2023	2021-2022
	Kshs	Kshs
Disputed tax penalties	57,282,747	57,282,747
<b>Total</b>	<b>57,282,747</b>	<b>57,282,747</b>

**Notes To The Financial Statements (Continued)**

The company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs 31,517,862 being the difference between the self-assessed amounts of Kshs 25,764,885 which has been outstanding for a long time. In their assessment, KRA tax audit had given a total tax payable of Kshs. 57,282,747. The management has agreed with KRA on a suitable payment schedule to pay the principal amount after which the two parties will agree on modalities to waive the penalties.

## Notes To The Financial Statements (Continued)

### 27. Financial Risk Management

The entity's 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 and available-for-sale financial investments.

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.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

**Notes to the Financial Statements (Continued)**

<b>Description</b>	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>At 30 June 2023</b>				
Trade Receivable	89,019,671	10,071,073	78,948,598	(55,215,962)
Bank balances	1,490,140	1,490,140	-	-
<b>Total</b>	<b>90,509,811</b>	<b>11,561,213</b>	<b>78,948,598</b>	<b>(55,215,962)</b>
<b>At 30 June 2022</b>				
Trade Receivable	88,688,633	9,505,076	79,183,557	(30,546,050)
Bank balances	156,779,424	156,779,424	-	-
<b>Total</b>	<b>245,468,057</b>	<b>166,284,500</b>	<b>79,183,557</b>	<b>(30,546,050)</b>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**Notes to the Financial Statements (Continued)****ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the entity's 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.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2023</b>				
Trade payables	2,716,688	15,438,443	100,197,690	118,352,821
<b>Total</b>	<b>2,716,688</b>	<b>15,438,443</b>	<b>100,197,690</b>	<b>118,352,821</b>
<b>At 30 June 2022</b>				
Trade payables	7,293,743	1,444,208	21,976,140	30,714,091
<b>Total</b>	<b>7,293,743</b>	<b>1,444,208</b>	<b>21,976,140</b>	<b>30,714,091</b>

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

## **Notes To The Financial Statements (Continued)**

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 and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

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 endeavored to bank with institutions that offer favorable interest rates.

## 1. Appendices

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

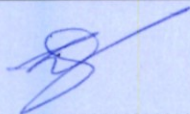
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<b>Investment Property:</b>				
1.0	1. Long Outstanding Debts: Net amount of Kshs. 6,640,310 due from individuals has remained unpaid since 2001.	Applied to the National Treasury for write-off	Not-Resolved	Pending review from National Treasury
	2. Encroachment of Land: the remaining portion of the unsold land measuring 460.70 hectares were not fenced and has been encroached by informal settlers and other parties who have put up permanent structures.	To Fence the land after court cases are resolved and resources availed	Not-Resolved	Waiting for court judgement
	3. Title Deed not updated: A letter from the Ministry of Lands (Feb 2009) indicated that the titles had been subdivided and new Land Reference numbers (LR's) given, however the management did not provide the new title deed for audit.	The process of securing the Title deed is ongoing	Not-Resolved	Applied to Ministry of Land waiting issuance of new title deed
2.0	<b>Lack of Asset register:</b> statement of financial position, reflects Kshs.230,590,827 in respect	Valuation of asset done now	Resolved	December 2023

	to property, plant, and equipment could not be confirmed that the assets of the company had been properly safeguarded and balance fairly stated.	updating the asset register		
<b>Trade and Other Payables</b>				
	1) Long Outstanding Payables: Tax liability of Kshs. 57,282,747	Agreed for monthly instalments of Kshs, 500,000	Not-Resolved	Still pursuing the Matter with KRA
	2) Unsupported Trade Balances: Payables of Kshs 82,183,431	This is reconciliation issue	Resolved	30 <sup>th</sup> June 2023
<b>3.0</b>	3) Undeclared Trade Payables: Kshs. 17,100,671	This is reconciliation issue	Not-Resolved	
<b>4.0</b>	Unsupported Trade and Other Receivables: the statement of financial position reflects a balance of Kshs.89,509,647 for trade and other receivables which could not be confirmed	Applied to the National Treasury for write-off	Not-Resolved	Pending review from National Treasury
<b>5.0</b>	Material Uncertainty in Relation to Going Concern: the management has not explained and provided evidence to show that the company intends to turn into profitability.	The management has introduced new strategies to ensure company returns to profitability	Not-Resolved	30 <sup>th</sup> June 2024

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management.
- (iii) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury



.....  
Name

Accounting Officer

(Enter title of head of entity)

Date

**Appendix II: Projects implemented by Numerical Machining Complex****Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	0	0	0	0	0	0

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Modernization of Foundry & CNC workshop	1.788B	630M	35.21%	-	-	GoK

The company did not implement any project funded by development partners.

**Appendix III- Inter-Entity Confirmation Letter**

***[Insert your Letterhead]***

*[Insert name of beneficiary entity]*

*[Insert Address]*

The *[insert SC/SAGA/Fund name here]* wishes to confirm the amounts disbursed to you as at 30<sup>th</sup> June 2023 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.

*Numerical Machine Complex Limited*  
**Annual Report and Financial Statements for the year ended 30<sup>th</sup> June 2023**

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**Confirmation of amounts received by Numerical Machining Complex Limited as at 30<sup>th</sup> June 2023**

Numerical Machine Complex Limited Annual Report and Financial Statements for the year ended 30 <sup>th</sup> June 2023		Amounts Disbursed by Ministry of Industry in (KShs) as at 30th June 2023				Amount Received by Numerical Machining Complex	Differences (Kshs) (F)=(D-E)
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Inter-Ministerial (C)	Total (D)=(A+B+C)	(Kshs) as at 30 <sup>th</sup> June 2023 (E)	
	Bank Statement date						
	19/08/2022	14,235,833	0	0	14,235,833	14,235,833	0
	30/08/2022	14,235,833	0	0	14,235,833	14,235,833	0
	21/09/2022	14,235,834	0	0	14,235,834	14,235,834	0
	01/11/2022	14,235,833	0	0	14,235,833	14,235,833	0
	07/10/2022	0	10,500,000	0	10,500,000	10,500,000	0
	02/12/2022	14,235,833	0	0	14,235,833	14,235,833	0
	28/12/2022	14,235,834	0	0	14,235,834	14,235,834	0
	03/02/2023	14,235,833	0	0	14,235,833	14,235,833	0
	06/03/2023	14,235,833	0	0	14,235,833	14,235,833	0
	11/05/2023	14,235,834	0	0	14,235,834	14,235,834	0
	07/07/2023	0	27,500,000	0	27,500,000	0	27,500,000
<b>Total</b>		<b><u>128,122,500</u></b>	<b><u>38,000,000</u></b>		<b><u>166,122,500</u></b>	<b><u>138,622,500</u></b>	<b><u>27,500,000</u></b>

In confirm that the amounts shown above are correct as of the date indicated.

**Head of Accountants department of beneficiary entity:**

**Name .....** **Sign .....** **Date .....**

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