

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE:

25 SEP 2019

Wednesday

THE AUDITOR-GENERAL

TABLED

Majority Party Whip  
Hon Benjamin Wadwa LC

CLERK

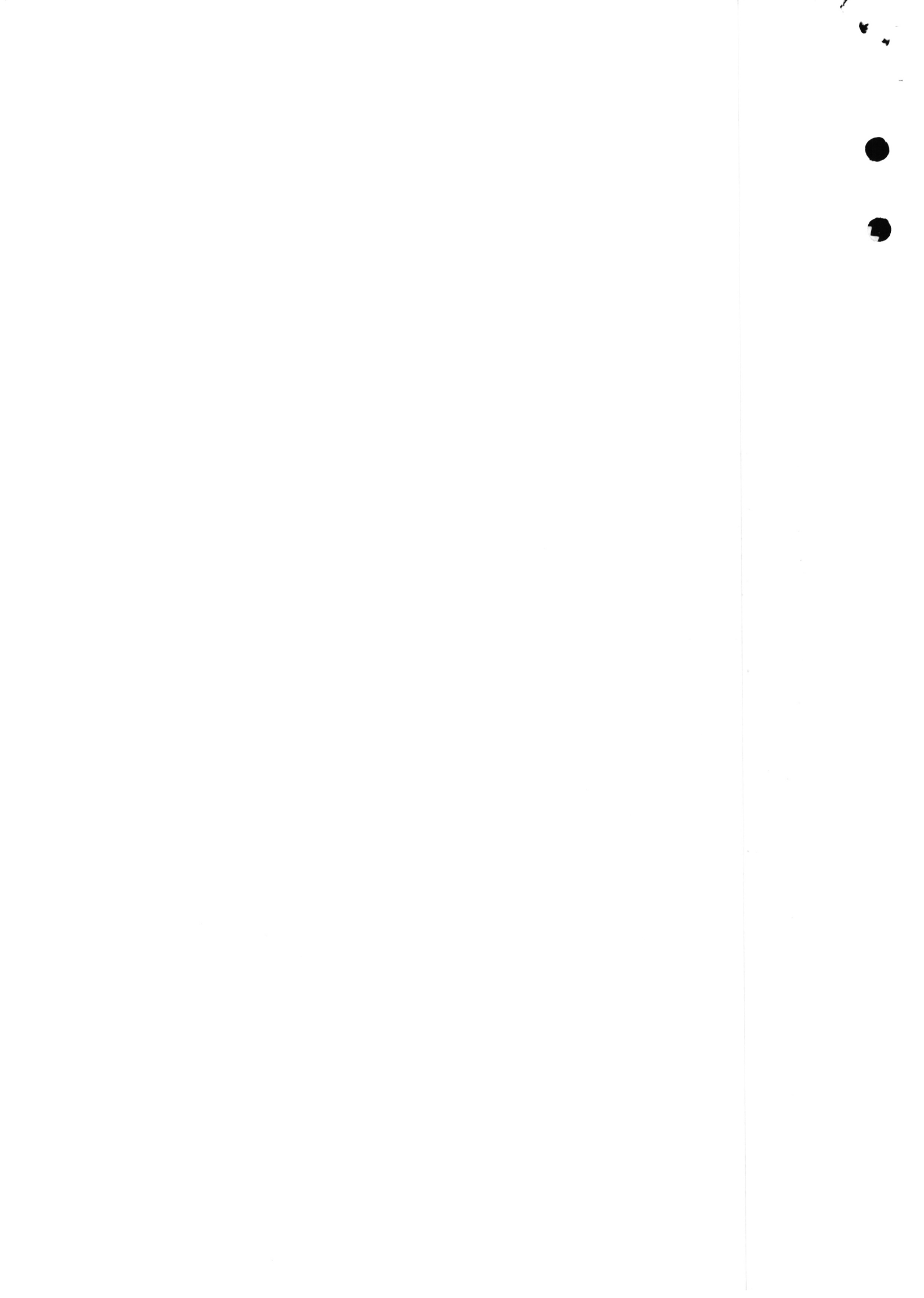
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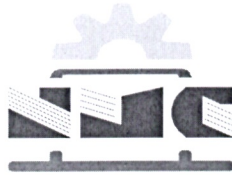
ON

THE FINANCIAL STATEMENTS OF  
NUMERICAL MACHINING COMPLEX  
LIMITED

FOR THE YEAR ENDED  
30 JUNE 2018

PARLIAMENT  
OF KENYA  
LIBRARY





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**NUMERICAL MACHINING COMPLEX LTD**  
**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2018**

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

**Reports and Financial Statements  
For the year ended June 30, 2018**

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Reports and Financial Statements  
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**I. KEY ENTITY INFORMATION**

**Background information**

The Numerical Machining Complex Ltd was established by the Companies Act on 4<sup>th</sup> day of January 1994. At cabinet level, the entity is represented by the Cabinet Secretary for Ministry of Industrialization & Enterprise Development who is responsible for the general policy and strategic direction of Numerical Machining Complex Ltd.

**Principal Activities**

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

**Directors**

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

<b>Name</b>	<b>Position</b>	<b>Appointed Date</b>
<b>Mr. Michael Waweru, FCCA, FCPA, CBS</b>	Chairman	Appointed on 6 <sup>th</sup> June 2018
<b>Gen(Rtd) Jeremiah M. Kianga</b>	Chairman	Appointed on 27 <sup>th</sup> April 2015-19 <sup>th</sup> July 2017
<b>Ms Christine Mbando</b>	Ag. MD	Appointed on 1 <sup>st</sup> October 2015- 29 <sup>th</sup> June 2018
<b>Eng. Benedict Kimau</b>	Ag. MD	Appointed on 29 <sup>th</sup> June 2018
<b>Prof. Gideon K. Misoi</b>	Member	Appointed on 27 <sup>th</sup> April 2015
<b>Mr. Phillip Nyingi</b>	Alternate to Permanent Secretary, Chief of Staff and Head of Public Service	Appointed on 3 <sup>rd</sup> September 2015
<b>Mr. Jackson N Kinyanjui</b>	Alternate to Dr. Kamau Thugge, EBS Permanent Secretary, National Treasury	Appointed on 14 <sup>th</sup> October 2015
<b>Eng. Francis Gitau</b>	Alternate to Eng. John K. Mosonik, EBS. PS Ministry of Transport and Infrastructure.	Appointed on 26 <sup>th</sup> August 2015
<b>Ms Janet Mugo</b>	Alternate to Amb. Kirimi P Kaberia, PS Ministry of Defence.	Appointed on 6 <sup>th</sup> April 2016
<b>Mr. James Nyambune</b>	Alternate to Prof. Colleta Suda EBS in the Ministry of Education, Science and Technology	Appointed on 7 <sup>th</sup> August 2015
<b>Mr. Erastus Kimuri</b>	Alternate to Mr. Patrick N. Mwangi, Permanent Secretary, Ministry of Industry, Investment and Trade	Appointed on 11 <sup>th</sup> August 2015-Left on 31 <sup>st</sup> August 2016.
<b>Amb Dr. Joseph K. Kiplagat</b>	Alternate to Mr. Patrick N. Mwangi, Permanent Secretary, Ministry of Industry, Investment and	Appointed on 1 <sup>st</sup> September 2016.

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	Trade	
<b>Eng. Benedict Kimau</b>	Alternate to the MD, Kenya Railways Corporation.	Appointed on 3 <sup>rd</sup> September 2015-28 <sup>th</sup> June 2018
<b>Eng. Stanley Kaguongo</b>	Independent Member	Appointed on 10 <sup>th</sup> May 2018
<b>Prof. Angelina Nduku Kioko</b>	Independent Member	Appointed on 10 <sup>th</sup> May 2018
<b>Dr. Kamau Gachigi</b>	Independent Member	Appointed on 10 <sup>th</sup> May 2018
<b>Eng. James Bett</b>	Independent Member	Appointed on 10 <sup>th</sup> May 2018

**Registered Office**

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

**Corporate Headquarters**

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

**Corporate Contacts**

Telephone: (254) 020-2327230/58  
(254) 020-2110970  
+254 710 568 000/3  
+245 716 431 114

E-mail: [enquiries@nmc.co.ke](mailto:enquiries@nmc.co.ke)

Website: [www.nmc.go.ke](http://www.nmc.go.ke)

**Corporate Bankers**

Kenya Commercial Bank  
Moi Avenue Branch  
P.O Box 30081  
Nairobi, Kenya




**Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**Principal Legal Advisers**

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






II. THE BOARD OF DIRECTORS

<p>Mr. M. G. Waweru, FCCA,FCPA,CBS (67 years) <i>Chairman</i> He joined the Board on 06<sup>th</sup> June 2018.A former KRA Commissioner General and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd.</p>	
<p>Gen.(Rtd) Jeremiah M. Kianga EGH,CBS(66 years) <i>Chairman</i> He joined the Board on 27<sup>th</sup> April 2015 and served up to19th July 2017.A former Chief of Defence Forces and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd.</p>	
<p>Eng. Benedict Kimau ( 61 years) <i>Member</i> He was appointed as the Ag. Managing Director on 29<sup>th</sup> June 2018. A registered engineer with BSc Civil Engineering, University of Nairobi, who joins the company with a wide experience in Railways design, construction &amp; maintenance and also special skills in safety management.</p>	
<p>Ms Christine Mbando (40 years) <i>Ag. Managing Director</i> She holds a BCom(HR) from Catholic University and MBA-Management from University of Africa. She has 13 years' experience as an HR professional and three years as Ag. Managing Director at Numerical Machining Complex.</p>	
<p>Prof. Gideon K. Misoi (65 years) <i>Member</i> He joined the Board on 27<sup>th</sup> April 2015 from University of Nairobi which is a shareholder of NMC. He holds a PhD Mechanical Engineering from University Of Nairobi. He is also a founder of NMC.</p>	
<p>Mr. Phillip Nyingi (51 years) <i>Member</i> Appointed as an alternate to Permanent Secretary, Chief of Staff and Head of Public Service on 3<sup>rd</sup> September 2015. He comes with 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.</p>	






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<p>Mr. Jackson Njau Kinyanjui (63 years) <i>Member</i> Appointed as Alternate to Dr. Kamau Thugge, EBS Permanent Secretary, National Treasury on 14th October 2015. He holds a Masters Degree in Development Economics from Williams College in USA Massachusetts and has over 32 years experience in the public service. Currently he serves as the Director of external resources in the national treasury.</p>	
<p>Eng. Francis Gitau (53 Years) <i>Member</i> Alternate to Eng. John K. Mosonik, EBS. PS Ministry of Transport and Infrastructure. He comes with 28 years of experience. He is a registered Consultant Engineer with the Engineers Board of Kenya, Holds a Bsc Civil Engineering from the University of Nairobi, an Executive Masters of Business Administration from JKUAT and is currently undertaking an Msc (Transportation) degree from the University of Nairobi. He is the Chairman of the Mechanical Transport Fund and serves as the Infrastructure Secretary in the State Department of Infrastructure.</p>	
<p>Ms. Janet N. Mugo (61 years) <i>Member</i> Appointed as Alternate to Amb. Kirimi P Kaberia, PS Ministry of Defence on 6<sup>th</sup> April 2016. She Holds BA (Hons) Government and Sociology and a member of Human Resource Board. She has worked in various Government ministries since joining the Public Service in 1983. She is In-charge of Parliamentary Business and Legal Matters in the Ministry; co-ordination, administration and implementation of HIV/AIDs, Drugs &amp; Substance Abuse and Integrity Policies.</p>	
<p>Mr. James Nyambune (53 years) <i>Member</i> He was appointed to the Board on 7<sup>th</sup> August 2015 as alternate to Prof. Colleta Suda EBS in the Ministry of Education, Science and Technology. He holds a Bachelor of Technology in Education, Moi University and Masters of Philosophy in Technology Education from University of Eldoret.</p>	
<p>Amb. Dr. Joseph Kiplagat (62 years) <i>Member</i> He was appointed to the Board on 23<sup>rd</sup> August 2018 as an alternate to Mr. Julius Korir, Permanent Secretary, Ministry of Industry, Investment and Trade. A mechanical engineer by profession and heads the department of industrial information and research at the state department of investment and industry</p>	



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<p>Eng. Benedict Kimau ( 61 years) <i>Member</i> He was appointed to the Board on 3<sup>rd</sup> September 2015-28<sup>th</sup> June 2018 as an alternate to the MD, Kenya Railways Corporation. A registered engineer with BSc Civil Engineering, University of Nairobi, who joins the company with a wide experience in Railways design, construction &amp; maintenance and also special skills in safety management.</p>	
<p>Eng. Stanley Kaguongo (57 Years) <i>Member</i> He was appointed to the Board on 17<sup>th</sup> April 2015 as an independent Director. A registered engineer with an MSc in International Construction Management and Engineering and has 30 years' experience in the field of civil and structural engineering designs, contract administration.</p>	
<p>Dr. Angelina Nduku Kioko (60 Years) <i>Member</i> She was appointed to the Board on 17<sup>th</sup> April 2015. She joins NMC with a Doctor of Philosophy in Linguistics from Monash University, Australia and wide experience as a Professor of English and Linguistics (USIU-A).</p>	
<p>Dr Kamau Gachigi (51 Years) <i>Member</i> He was appointed to the Board on 27<sup>th</sup> April 2015. He comes with a BSc Material Science from University of Bath UK and PhD Solid State Science from Pennsylvania State University USA. He has been a lecturer at University of Nairobi, department of mechanical engineering from 1999 to date.</p>	
<p>Eng. James Bett (60 Years) <i>Member</i> He was appointed to the Board on 27<sup>th</sup> April 2015 as an independent Director. He is a registered engineer who joins the company with a Master's Degree (Industrial engineering and management from University of Sierra Leone) and a wide experience gained in the sugar and tea industries.</p>	

**III. MANAGEMENT TEAM**

 <p>Ms Christine Mbando</p>	<p>Ms Christine Mbando (40 yrs) is the Acting Managing Director and holds a <i>Bcom (HR)-Catholic University. MBA-Management University of Africa.</i></p> <p>She has 13 years' experience as an HR professional and three years as Ag. Managing Director at Numerical Machining Complex.</p>
 <p>Eng. Michael Thubi</p>	<p>Eng. Michael Thubi, (55 yrs) is the Research &amp; Design Manager. He holds a <i>Bsc Mechanical Engineering (UoN) and Msc. Advanced Manufacturing Technology-University of Manchester.</i> He is a member of IEK. He has 4 years' experience in steel Industry under Industrial Promotion Services and 22 years in NMC in production design of products.</p>
 <p>Mr. Zacharia Magondu</p>	<p>Mr Zacharia Magondu (38yrs) is the Production Manager and holds <i>Bsc. Manufacturing Engineering (Egerton University)</i> He has 7 years of experience in production engineering.</p>
 <p>Ms Lilian Owiti</p>	<p>Ms Lilian Owiti (39 yrs) is currently In-charge of HR and Administration. She has 7 years' experience as a HR professional. She is a Diploma holder of Business Management (<i>KIM</i>) and executive certificate HRM from <i>IHRM.</i></p>
 <p>CPA Ferdinand Ododa.</p>	<p>CPA Ferdinand Ododa (32yrs) is the In-charge Finance and holds a <i>B Com (Finance)-Kenyatta University</i> and is a CPA(K). He has 9 years experience as a finance and accounting professional and a member of ICPAK.</p>

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 <p>Ms Zipporah Samoei</p>	<p>Ms Zipporah Samoei (40 yrs) is currently in charge of Sales &amp; Marketing. She has 10 years' experience as a Marketing professional. She is a Diploma holder of Marketing by the Chartered Institute of Marketing. She is an Associate Member CIM.</p>
 <p>Mr Walter Nyamongo</p>	<p>Mr Walter Nyamongo (43yrs) is the Ag.Procurement Manager and holds an <i>Msc Procument &amp; Logistics (JKUAT)</i> and a <i>Bsc in Tourism &amp; Wildlife Management (Moi University)</i>. He has 3 years' experience as the Ag. Head of Procurement at NMC and a further 3 years' experience as a head of Finance and operations in the private sector.</p>

#### **IV. CHAIRMAN`S REPORT**

Despite the significant challenges faced by the Company during the period under review, namely: high cost of production, machine breakdown and intense competition in the local and international markets, the company is on the right track. The Board and the management remain focused on putting in place measures that in the long term will enable the company strengthen its balance sheet, make profits and give dividends to treasury. On behalf of the Board, I call upon the government, all employees, customers, suppliers and all stakeholders to work with us in transforming and turning around the Company's business performance and laying the foundations for future growth to meet the pillar of Vision 2030 . I have no doubt that the company is poised to be at the focal point in facilitating and promoting industrialization.

#### **Company performance**

NMC reduced its operating loss to 5,721,610 during the financial year 2017/2018 (17,900,655-2016/2017), a clear indication that the company's turnaround is taking shape. Results for the year were as detailed below:

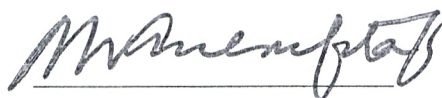
- Significant operating improvements.
- Revenue grew by 25.5 percent from Kshs 53 million to Kshs 66.6 million
- Operating costs reduced by 3.2 per cent
- Gross profit improved from Kshs 11.3 million to kshs 39.5 million
- The loss before tax reduced from Kshs 17.9 million to Kshs 5.7 million.

#### **Future prospects**

Moving forward the company is projecting to achieve revenues of 255 million in the coming financial year. This will mainly be actualized by the manufacture of steel fittings for KPLC for the government initiative for power connectivity, manufacture of shackles for Isuzu EA Ltd (General Motors) among other collaborative projects from Government Ministries. e.g Hydro-power plant.

#### **Appreciation**

I take this opportunity to express my sincere appreciation to the Government, our customers, management, staff, suppliers and fellow Board members for their dedicated contribution and continued support to Numerical Machining Complex Ltd.



Mr. M.G. Waweru, FCCA, FCPA, CBS  
**Chairman**

**V. REPORT OF THE MANAGING DIRECTOR**

I have the pleasure to present the annual report and accounts of Numerical Machining Complex ltd for the year ended 30 June 2018.

During the year, the Board of Directors and the management undertook re-engineering the operations of the company in light of the existing challenges to turn-around the organization for increased sales and profitability these efforts centred on revival of stalled machines, staff rationalization and the roll-out of the strategic plan 2017-2021.

The company also embarked on completion of the ongoing projects aimed at modernization of the foundry and machining workshops. The induction furnaces were commissioned and power back-up generators installed at the foundry workshop.

I am pleased to report that the year 2017/2018 was a year that NMC received a grant of Kshs 139.4 million for recurrent expenditure and Kshs 25 million to finance the development expenditure.

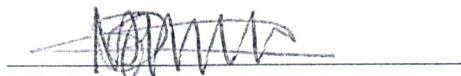
- The government support for both development and recurrent grant during this period decreased by 16% from Kshs 195 million received in the year 2016/2017 to Kshs 164 million in the year 2017/2018
- Operating costs reduced by 3.2 per cent mainly through cost cutting initiatives undertaken by management.
- Gross profit improved from Kshs 11.3 million to kshs 39.5 million
- The loss before tax reduced from Kshs 16.9 million to Kshs 5.7 million.

In light of the current manufacturing sector performance we are optimistic that upon implementation of the developed strategic plan and the promising market environment we shall attain the budgeted sales target of Kshs 255 million in the financial year 2017/2018.

**CONCLUSION**

I would like to take this opportunity to thank the Government of Kenya for its support throughout the year under review and also appeal for more support ,especially for funding in achieving the government Big 4 Agenda.

Last but not least, I would like to thank the management,staff of NMC for their continued co-operation and support in the difficult challenges of production and administration of NMC.I look forward for increased co-operation and enthusiasm for rapid growth of NMC Ltd.



Mr Bernard Njiraini  
**Managing Director**

**VI. CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process by which corporations are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

At Numerical Machining Complex Ltd, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the corporations' activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. The Board is responsible for the governance of the entity and conducts the business and operations of the entity with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

**BOARD OF DIRECTORS**

The composition of the Board is set out on page (iv-vi). The Board of Directors of the entity comprises of the Chairman who is appointed by the President, the CEO is appointed by the PS Ministry of Industrialization on recommendation by the Board. The Board has varied and extensive skills in the areas of business engineering management. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give reasonable assurance against material misstatements.

The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the MD and plays a lead role in consensus building between the Board members, the MD and senior management. The Board has delegated the authority for day-to-day management to the MD. It however retains the overall responsibility for decisions with regard to finances and operations of the entity.

The Board meets regularly and has a formal schedule of matters reserved to it. Board papers are generally circulated well in advance of the Board meetings by the Director Legal Services. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The key function of the Board is to guide and control the performance and management of the affairs of the entity.

This includes the duty to ensure that the functions of the board are carried out in an efficient, transparent and ethical manner and that no particular person or body is given undue preference or subjected to any undue disadvantage. The Board considers and advises the Cabinet Secretary for Ministry of Industrialization and Enterprise Development on the development and maintenance of the policies and the objectives of Numerical Machining Complex Ltd. It considers and approves general performance targets, both strategic and business, and the annual budgets of the entity.

The Board has power to control the use of and oversee the administration of assets of the entity and also to determine the provisions to be made for capital and recurrent expenditure and for revenue reserves of the entity.

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairmen of the Committees reporting to it. This consist of the audit committee, human resource committee, finance & Administration committee, technical committee and land ad-hoc committee.

During the year, the company held 6 board meetings as per Mwongozo Code of Conduct to discuss Preparation of key human resource documents; Strategic plan 2017-2021; Vetting of the company's performance through the Performance contract, marketing, finance and production reports; Assessing how to improve revenues of the company; Downsizing to improve on profitability; Deliberations on current impending liabilities that have fallen due; Audit reports from OAG.

Composition of the Board and attendance

**Name of the Director**

1. Mr. Michael Waweru

**Attendance**

1

**Reports and Financial Statements  
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2. Gen(Rtd) Jeremiah M. Kianga	1
3. Ms Christine Mbando	6
4. Prof.Gideon K. Misoi	5
5. Mr. Phillip Nyingi	3
6. Mr. Jackson N Kinyanjui	1
7. Eng. Francis Gitau	3
8. Ms Janet Mugo	-
9. Mr.James Nyambune	3
10. Eng.Benedict Kimau	5
11. Eng.Stanley Kaguongo	6
12. Prof. Angelina Nduku Kioko	5
13. Dr.Kamau Gachigi	4
14. Eng.James Bett	6
15. Amb.Joseph Kiplangat	5

**Board Committees**

The Board has five (4) standing committees that assist to effectively discharge various business functions and responsibilities. An adhoc committee can be constituted to deal with pertinent issues as they arise case in point being Land Ad-hoc committe. The Board defines terms of reference under which the respective committees operate.The committees submit reports of their activities to the Board.

During the year, the Board had the following committees:

**Audit Committee**

The Audit Committee ensures that adequate operating and control processes are applied to safeguard Company assets. The Committee comprised three non-executive Directors. It regularly invites the A.g Managing Director, the In-charge Finance and Internal Audit to its meetings. External auditors are also invited to attend the meetings when necessary.

The Audit Committee is tasked with the following responsibilities:

- Examining quarterly, half-year and annual financial statements,
- Discussing audit plan with the internal auditor before commencement of the annual audit
- Consideration of audit findings by the external auditors
- Reviewing the function, independence, operations and findings of the Internal Audit Department
- Reviewing risks affecting the Company and management strategies in addressing them
- Ensuring adherence with the code of ethics and integrityin financial transactions of the Company.

The Audit Committee held 2 meetings as shown below:

<b>Name</b>	<b>Attendance</b>
Eng. Stanley Kaguongo – Chairman	2
Eng. Benedict Kimau	1
Mr.Jackson Kinyanjui	1
Eng.Francis Gitau (by invitation)	2

**Human Resource Committee**

The Human Resource Committee’s mandate is to consider and make recommendations to the Board on the following:

- Appointment of, and terms and conditions of service for theManaging Director;
- Appointment, promotion and disciplinary issues of management.R
- Remuneration structure for staff;
- Performance bonus for the Managing Director and staff;
- Human resources policies and corporate organisational structure to support business
- Succession plan for senior staff.
- Reviewing performance of the staff pension scheme.

The Committee invites in-charge Human Resource and Administration to its meetings.The HR Committee held 3 meetings during the year under review as shown in the below:

<b>Name</b>	<b>Attendance</b>
Prof.Angelina Kioko – Chairperson	3

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Prof.Gideon K. Misoi	2
Mr. Phillip Nyingi	2
Ms. Janet Mugo	-
Eng. Benedict Kimau	1
Mr. James Nyambune	3
Dr Kamau Gachigi	2
Amb.Joseph Kiplangat	1
Eng.James Bett	2
Eng. Stanley Kaguongo	1

**Finance & Technical Committee**

The Finance & Technical Committee advises the Board on strategies to enhance performance of the Company. The two Committees reviews the Company's Five Year Strategic Plan, Annual Corporate Strategic Plan and Annual Corporate Budget, financial and technical Performance. It is also responsible for monitoring major projects under implementation and directing strategies for improving revenue and customer experience.

The Committee invites the Production Manager, Research & Development Engineer, in-charge of Finance, In-charge Sales and Marketing and Ag. Procurement manager to its meetings.

The Finance & Technical Committee held 3 meetings during the year under review as shown below:

<b>Name</b>	<b>Attendance</b>
Dr Kamau Gachigi – Chairman(Finance)	3
Eng.James Bett – Chairman(Technical)	3
Mr.Jackson Kinyanjui	1
Amb.Joseph Kiplangat	2
Eng.Francis Gitau	2
Mr.James O.Nyambune	2
Prof.Gideon K. Misoi	1
Eng. Stanley Kaguongo	1

**Land Ad-Hoc Committee**

During the year, the board formed the land ad-hoc committee to discuss and deliberate on pertinent issues relating to Athi-River land i.e transfer of land sold in 2000, securing of the land from further encroachment and master plan utilization of the remaining parcel of land.

The Land Ad-Hoc Committee did not hold meetings during the year under review as shown below:

<b>Name</b>	<b>Attendance</b>
Prof.Gideon K. Misoi – Chairman	-
Dr Kamau Gachigi	-
Eng.James Bett	-
Mr.Jackson Kinyanjui	-
Amb.Joseph Kiplangat	-
Eng.Francis Gitau	-
Mr.James O.Nyambune	-
Eng.Benedict Kimau	-

**Directors' Remuneration**

During every Board meeting, present Directors are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within government set limits for state corporations. The Chairman receives a monthly honorarium. Directors' fees are paid in accordance and within the approved limits set in the guidelines by the Government to all state corporations.

Details of Directors' emoluments during the year are shown on page 21 in the financial statements.

The company has a Board Charter in place in accordance with Mwongozo code of conduct that outlines process of appointment and removal of Directors, role and functions of the Board, Board and member performance, conflict of interest, ethics and conduct as well as governance audit

**VII. MANAGEMENT DISCUSSION AND ANALYSIS**

**Operational and Financial Performance.**

During the year under review the company managed to increase the revenues by 25.5% from Kshs 53 million reported in 2016/17 to Kshs 66 million.

The increase was mainly attributed to the company receiving an order from KPLC for manufacture of Steel fittings for the government initiative for national power distribution and connectivity, fabrication of shackles for Isuzu East Africa Ltd (General Motors EA Ltd), Casting of railway brakeblocks for Rift Valley Railways, Collaborative Bio-diesel plant project under the Ministry of Energy.

The company managed to increase its gross profit from Kshs 11.3 million to Kshs 39.6 million. This was mainly attributed to utilization pricing model changes in production and cost control measures.

The main challenge the management faced in managing production cost is the local unavailability and fluctuating cost of material inputs especially steel and foundry inputs. Further, the stringent procurement laws that hampered the delivery time of customer jobs and worked in favour of our competitors. The company also experienced high down time due to machine breakdown.

The operating expenses declined from Kshs.259 million to Kshs 251 million, this represents a drop of 3.2% .

The management instituted cost cutting measures during the year which included down-sizing of staff and implementing austerity measures in various expenditure heads e.g printing and stationery, travel and accommodation and computer expenses.

The overall performance for the year as compared to 2016/2017 was an improvement from a loss of Kshs 17 million to a loss of Kshs 5.7 million.

Some of the measures the management has taken up to improve the financial performance in the coming year:-

- Reduction of trade debtors and ease on cashflow management by requesting for down-payment for orders to facilitate purchase of production inputs and a further final settlement before delivery is complete.
- The management has scaled up contract management with suppliers to ease delivery of material inputs and in conformity with PPOA Act.
- Discussions are underway with our bankers to assist in financing, when the company receives orders that are of high value through working capital financing facilities.

The company managed to install and commission induction furnaces at the Foundry workshop, CNC Lathe machine, power back-up generators through the development grant and is in the process of completion of building an in-house galvanizing plant. The capital expenditure returns will be felt in the financial year 2017/2018.

**Reports and Financial Statements  
For the year ended June 30, 2018**

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**Statutory Requirements**

The company managed to settle all the statutory obligations in time and did not incur any penalties or interest. These include PAYE, NSSF, NHIF, NSSF.

The Company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs. 65,449,910 being corporation tax, VAT and Withholding Tax. The figure includes interest and penalties which has been accrued over a long period of time. During the year, the company and KRA agreed to schedule another audit exercise to finalize on the pending matter.

**Reports and Financial Statements  
For the year ended June 30, 2018**

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**VIII. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June, 2018 which show the state of Numerical Machining Complex Ltd affairs.

**Principal activities**

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

**Results**

During the year the entity had a loss of ksh.5,721,610 (ksh.17,900,655- 30<sup>th</sup> June 2017).

**Directors**

The members of the Board of Directors who were appointed during the year are shown on page (iv-vi). In accordance with Regulation of the State corporations Act (Cap 446). The Board of Directors were appointed from 27th April 2015.

**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  
Ag. Corporate Secretary  
Nairobi  
Date:

**IX. 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 the 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.

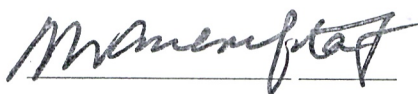
The Directors are responsible for the preparation of the annual financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on 30 June, 2018 in accordance with IFRS and in the manner required by the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statement that are free from material misstatement whether due to fraud or error.

The Directors accept 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. 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 30 June, 2018, 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.

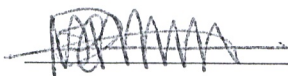
As disclosed in note 1 to the financial statements the directors acknowledge that the continued existence of the company as a going concern depends on continued support from the government and success of the measures that the directors have put in place to enable the company to return to profitability and reduce reliance on the government for financial support.

**Approval of the financial statements**

The entity's financial statements were approved on \_\_\_\_\_ 2019 and signed on its behalf by:



Mr. M.G. Waweru, FCCA, FCPA, CBS  
**Chairman**



Benard Njiraini  
**Managing Director**



Kamau Gachigi  
**Director**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on page 1 to 38, which comprise the statement of financial position as at 30 June 2018, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Numerical Machining Complex Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Companies Act, 2015 of the Laws of Kenya

#### Basis for Qualified Opinion

##### 1. Unconfirmed Value of Investment Property- Land

The investment property balance as at 30 June, 2018 reflects Kshs.290,000,000. However, the following anomalies were noted:

- (i) As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares under title LR No.63767 in Mavoko, Athi River. In 2001, the Company with the consent of the Government later sold part of land measuring 288.09 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 has remained unpaid since 2001 from the sale of the parcel of land. Recoverability of the debt remains doubtful.
- (ii) In addition, the remaining portion of land measuring 415.5 hectares is not fenced and has been encroached by squatters and other parties who have put up permanent structures. Further, the said portion of the unsold land measuring 415.5

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*Report of the Auditor-General on the Financial Statements of Numerical Machining Complex Limited for the year ended 30 June 2018*

hectares 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 valued its assets in the last nine (9) years to take cognizance of the drastic change in value of its assets contrary to International Accounting Standard No.16 and 40 which stipulates that property, plant and equipment should be revalued after every five years and lease payments be recognized as an expense in the statement of financial performance on a straight-line basis over the lease term, the leasehold property has not been amortized.

- (iii) On 14 January, 2003 a new title deed was issued to the Numeric Machining Complex Limited for 202.4 hectares under title No. I.R. 91216 land reference No.11895/22. It is not clear under which circumstances this new title deed was issued to the Company. A letter from the Ministry of Land Ref. No. VAL.1371/6 dated 17 February, 2009 to Numeric Machining Complex Limited on valuation of a parcel 11895/20 indicated that LR No.11895/20 had been subdivided and new LR's given. It is not clear why the company requested the Ministry on valuation of the land with reference 11895/20 while noting that the number had changed. During the 2017/2018 audit the management did not provide the title deed for the land for audit verification.

Consequently, it has not been possible to confirm the ownership, the accuracy, valuation and security of the investment property balance of Kshs.290,000,000 as at 30 June 2018.

## **2. Longstanding Tax Payable**

The tax payable of Kshs.57,782,747 as reported in the previous years, relates to a tax liability of Kshs.26,264,885 which has been reflected in the financial statements since 1999. Failure to pay the tax had culminated to penalties and interest totaling to Kshs.31,517,862 as at 31 December 2013 as assessed by the Kenya Revenue Authority through their demand letter dated 24 September 2014. The amount remains outstanding and continues to attract further penalties and interest a situation which could have been avoided.

## **3. Trade Receivables**

The trade and other receivables reflect a balance of Kshs.98,283,172 as at 30 June 2018. However, the following anomalies were noted;

- (i) Note 11 (a) to the financial statements reflects a figure of Kshs.2,992,354 for accountable advances and Kshs.1,109,296 for salary advances. Inclusive in this figure is Kshs.1,498,066 and Kshs.473,270 for accountable advances and salaries advances respectively from staff who have since left the Company's service.
- (ii) The figure of Kshs.112,904 for car loan had no movement since 2012. The management explained that the loan belongs to an employee who left the organization.

- (iii) The deposits figure of Kshs.8,773,010 includes Kshs.1,544,762 which as reported previously has been long outstanding. The management has explained these figures as deposits for tenders and performance bonds the Company participated in. The amount has been outstanding for a considerable period of time and no evidence was provided to support these outstanding balances.
- (iv) Further, the figure of Athi River land sales receivables of Kshs.6,640,331 have remained unpaid since 2001.
- (v) Further, included in the trade debtors balance of Kshs.101,323,324 is a debt amounting to Kshs.17,019,282 owed to the Company by M/s Rift Valley Railways. Recoverability of this long outstanding debt is doubtful since Rift Valley Railways is no longer in operation.
- (vi) Contrary to the Company's terms of credit and payment which stipulated that the credit period should not exceeded 60 days, it is observed that Kshs.79,182,421 owed to NMC has been outstanding for more than 60 days.
- (vii) Included in the trade debtors balance is Kshs.49,640,750.19 owed to the Company by 15 debtors which has been outstanding for more than 5 years.

Under the circumstances, it has not been possible to confirm that trade and other receivables balance of Kshs.98,283,172 as at 30 June 2018 is fairly stated.

#### **4. Unconfirmed Status of Fixed Assets**

As reported in the prior years, the property, plant and equipment balance of Kshs.369,711,482 is not supported with a fixed asset register to indicate the locality, condition and use of the assets, among other details, as stipulated in the Public Finance Management Act, 2012 regulations and the Company's finance policy guidelines and procedure manual. Unless a proper and functioning asset management system is put in place, the Company's assets are exposed to abuse, misuse and may be lost through pilferage and theft. As a result, it has not been possible to confirm the status and location of the Company's assets.

It was further observed that apart from motor vehicles with a net book value of a Nil balance, other assets of the Company with an aggregate net book value of Kshs.369,711,482 as at 30 June 2018 were not insured. Under the circumstances, recoverability of assets remains doubtful should un-foreseen or unfavorable incident occurs.

#### **5. Trade and Other Payables**

The trade and other payables reflect balance of Kshs.127,322,840 as at 30 June 2018. However, note 14 to the financial statements reflects long outstanding accounts payables as follows;

Item	Amount Kshs.	Amount Outstanding for more than 1 year Kshs.
Trade payables	26,833,248	10,172,907
Accrued expenses	3,763,998	2,353,998
Other payables	96,725,594	67,466,818
<b>Total</b>	<b>127,322,840</b>	<b>79,993,723</b>

In addition, the trade creditors amounting to Kshs.5,307,926 and an advance of Kshs.3,000,000 due to University of Nairobi did not show any movement in the year under review. Although the Company explained that the creditors were not cleared during the year due to inadequate funding, the Company could risk being charged interest and penalties for not paying its creditors.

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

## **Emphasis of Matter**

### **1. Lack of an Enabling Framework**

The Company was incorporated in 1994 under Companies Act, Cap 446, but there is no strong internal framework enacted to enhance the Company's mandate and objectives. As a result, the Company operates with a weak enabling framework which has not fortified its operations and mandate.

### **2. Unexplained Status of Ordinary Share Capital**

Note 13 to the financial statements indicates that Kenya Railways Corporation owns 51% of the ordinary shares in Numerical Machining Complex Limited and the balance of 49% is owned by the University of Nairobi. The ownership is however not as a result of direct purchase of ordinary shares but shares held in trust by these institutions on behalf of the Government through the National Treasury.

## **Key Audit Matters**

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

## **Other Matter**

### **1. Budget Control and Performance**

- (i) During the financial year 2017/2018, the Company forwarded for approval its budget to the parent Ministry for its revenues and expenditure. However, it was

noted that the Company had budgeted sales of Kshs.255,287,000 but only realized Kshs.66,616,000 resulting to under collection of sales/revenues by Kshs.188,671,000 which represents 74% of the gross revenues estimates.

- (ii) The Company submitted budget to the parent ministry with cost of sales figure of Kshs.70,037,000. During supplementary budget, the figure was reduced to Kshs.55,050,000 without any adjustment to the sales figure. The actual amount incurred for the cost of sales was Kshs.27,089,000. In the circumstances, the budgeting process of the Company may not be realistic.

## **2. Below-Average Financial Performance**

The Company's statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflected net loss of Kshs.5,721,610, (2017 loss – Kshs.17,900,655)

The company achieved sales of Kshs.66,615,916 against a target of Kshs.255,287,000 representing 26% revenue performance rate in 2017/2018; (25% - Revenue Performance rate in 2016/2017). This has been despite major capital investments in the last three (3) years amounting to Kshs.375 million from the GOK which was intended to accelerate output and sales.

The company's continued operation is thus mainly dependent on the government support.

## **3. Failure to Use Software in Inventory Control**

The Company uses Pastel Accounting Software to manage its financial and some other operational records. Although the software includes a module for inventory management and control, the Company does not utilize the module. Instead inventories are managed and controlled manually which is more prone to errors and fraud.

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

### **Conclusion**

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

### **Basis for Conclusion**

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Article 229(6) of the Constitution, 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.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Kenyan Companies Act, 2015, I report based on my audit, that:

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

### **Responsibilities of Management and Those Charged with Governance**

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

### **Auditor-General's Responsibilities for the Audit**

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

In addition to the audit of the financial statements, a compliance 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

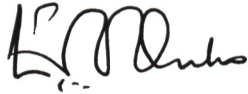
inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

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 or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the 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 Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**05 August 2019**

Reports and Financial Statements  
For the year ended June 30, 2018

**XI. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018**

	NOTE	2018 KSHS	2017 KSHS
<b>REVENUE</b>			
Sales	1	66,615,916	53,078,401
Cost of Sales	2	(27,088,593)	(41,771,574)
Gross profit		<u>39,527,322</u>	<u>11,306,827</u>
Government Recurrent Grant	3	139,425,000	165,900,000
Deferred Income Recognized	9	65,154,877	64,464,615
Other Operating Income	4	1,560,278	131,035
<b>TOTAL REVENUE</b>		<u>245,667,478</u>	<u>241,802,477</u>
<b>OPERATING EXPENSES</b>			
Administrative Expenses	5a	(120,771,459)	(105,682,464)
Directors Expenses	5c	(3,569,124)	(5,362,087)
Staff Costs	5b	(124,816,429)	(147,731,622)
Selling and Distribution	6	(1,492,118)	(926,958)
		<u>(251,389,088)</u>	<u>(259,703,132)</u>
<b>NET PROFIT /(LOSS)</b>		<u>(5,721,610)</u> =====	<u>(17,900,655)</u> =====


*Numerical Machining Complex Ltd*

Reports and Financial Statements  
For the year ended June 30, 2018

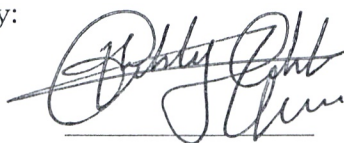
**XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

	NOTES	2018 KSHS	2017 KSHS
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	7	369,711,482	424,620,155
Investment property	8	290,000,000	290,000,000
<b>Total Non-Current Assets</b>		<b>659,711,482</b>	<b>714,620,155</b>
<b>Current Assets</b>			
Inventories	10	88,967,957	90,626,679
Trade and other receivables	11a	98,283,172	86,610,332
Bank and Cash Balances	12	42,179,156	29,685,480
<b>Total Current Assets</b>		<b>229,430,285</b>	<b>206,922,490</b>
<b>TOTAL ASSETS</b>		<b>889,141,767</b>	<b>921,542,645</b>
<b>EQUITY AND LIABILITIES</b>			
Government Grants		1,214,024,646	1,214,024,646
Revaluation Reserve		158,993,190	158,993,190
Revenue Reserves		(1,569,680,432)	(1,563,958,822)
<b>Capital Grants</b>		900,698,776	940,853,653
<b>Total Capital and Reserves</b>		<b>704,036,180</b>	<b>749,912,667</b>
<b>Current Liabilities</b>			
Tax payable	15	57,782,747	57,782,747
Trade and Other Payables	14	127,322,840	113,847,231
<b>Total Current Liabilities</b>		<b>185,105,587</b>	<b>171,629,978</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>889,141,767</b>	<b>921,542,645</b>

The financial statements were approved by the Board on \_\_\_\_\_ 2019 and signed on its behalf by:



Bernard Njraini  
Managing Director



CPA Ferdinand Ododa  
Ag. Head of Finance  
ICPAK M/No.17350



Mr. M. G. Waweru, FCCA, FCPA, CBS  
Chairman

Reports and Financial Statements  
For the year ended June 30, 2018

**XIII. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018**

	NOTE	Government grants kshs.	Revaluation Reserve Kshs.	Revenue reserves (losses) as restated kshs.	Capital Grants Kshs.	Total kshs.
<b>As At 1st July 2016 as Reported</b>		1,214,024,646	-	(1,546,058,167)	980,318,268	648,284,747
Prior Period Adjustment			-	-	-	-
Capital Grants Received 2016/2017					25,000,000	25,000,000
Depreciation on assets bought from capital grants					(64,464,615)	(64,464,615)
Net profit (loss) for the year		-		(17,900,655)		(17,900,655)
Revaluation Surplus			158,993,190			
<b>Balance As at 30th June 2017</b>		1,214,024,646	158,993,190	(1,563,958,822)	940,853,653	749,912,667
<b>Balance as at 1st July 2017</b>		1,214,024,646	158,993,190	(1,563,958,123)	940,853,653	749,912,667
Capital Grants Received 2017/2018					25,000,000	25,000,000
Depreciation on assets bought from capital grants					(65,154,877)	(65,154,877)
Net profit (loss) for the year		-		(5,721,610)		(5,721,610)
<b>Balance As at 30th June 2018</b>		1,214,024,646	158,993,190	(1,569,680,432)	900,698,776	704,036,180
<b>Balance Restated As at 30th June 2017</b>		1,214,024,646	158,993,190	(1,563,958,822)	940,853,653	749,912,667

The government grant relates to initial seed money contributed by the Government of Kenya to start the company.

The capital grant relates to development grant that the company has received from the government over the years for modernizing the company. The movement in capital grants of Kshs (940,853,653 - 900,704,216) in the two years is recognised in the statement of cashflows under financing activities.

<b>XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018</b>			
	Notes	2018 KSHS	2017 KSHS
<b>OPERATING ACTIVITIES</b>			
Profit (Loss) Before Taxation		(5,721,610)	(17,900,655)
Adjustments for:-			
Depreciation	7	65,704,706	65,014,447
Prior Period Adjustment		-	-
		<u>59,983,096</u>	<u>47,113,792</u>
<b>WORKING CAPITAL CHANGES</b>			
Increase/ Decrease in Stocks		1,658,722	(875,955)
Increase/ Decrease in Debtors and Prepayments		(11,672,841)	(1,553,949)
Increase/ Decrease in Creditors and Accruals		13,475,609	(5,053,963)
<b>Net Cash generated from Operating activities</b>		<u>63,444,587</u>	<u>39,179,925</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets	7	(10,796,033)	(126,850,868)
<b>Net Cash generated from investing activities</b>		<u>(10,796,033)</u>	<u>(126,850,868)</u>
<b>FINANCING ACTIVITIES</b>			
Decrease in Long term liability capital grant <i>(See the movement in Statement of Changes in Equity)</i>		(40,154,878)	(39,464,615)
<b>Net Cash generated from financing activities</b>		<u>(40,154,878)</u>	<u>(39,464,615)</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>12,493,676</u>	<u>(127,135,559)</u>
<b>CASH AND CASH EQUIVALENTS AS AT 1ST JULY 2017</b>		<u>29,685,480</u>	<u>156,821,039</u>
<b>CASH AND CASH EQUIVALENTS AS AT 30TH JUNE 2018</b>		<u>42,179,156</u>	<u>29,685,480</u>
		=====	=====

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018 (Kshs “000”)**

<b>Recurrent Revenue</b>	<b>Original Budget</b>	<b>Adjustment</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Performance Difference</b>	<b>Percentage Variation</b>
Gross sales Income	255,287	-	255,287	66,616	(188,671)	-74%
Cost of Sales	(70,037)	55,050	(125,087)	(27,089)	97,998	78%
<b>Gross Profit</b>	<b>185,250</b>	<b>(55,050)</b>	<b>130,200</b>	<b>39,527</b>	<b>(90,673)</b>	<b>-70%</b>
Grant Recurrent, Other Income & Deferred Income	237,084	20,000	257,084	206,140	(50,944)	-20%
<b>Total Recurrent Revenue</b>	<b>422,334</b>	<b>35,050</b>	<b>387,284</b>	<b>245,667</b>	<b>(141,617)</b>	<b>-37%</b>
<b>Operating Expenses</b>						
Personnel Emoluments	201,800	216	202,016	124,816	77,200	38%
Board Expenses	10,960	(4,960)	6,000	4,309	1,691	28%
Operating/Administrative Expenses	53,909	21,251	75,160	54,032	21,128	28%
Repairs and Maintenance	3,700	-	3,700	2,526	1,174	32%
Depreciation	90,734	-	90,734	65,705	25,029	28%
<b>Total Operating Expenses</b>	<b>361,103</b>	<b>16,507</b>	<b>377,610</b>	<b>251,389</b>	<b>126,221</b>	<b>33%</b>
<b>Operating Profit/Loss</b>	<b>61,232</b>	<b>(51,557)</b>	<b>9,675</b>	<b>(5,722)</b>	<b>(15,397)</b>	<b>-159%</b>

**1. Gross Sales Income**

The company achieved 26% of the projected revenues giving a variance of 188 million. These revenues were to be generated from diversified product lines.

The projected sales were pegged on acquisition of capital equipment from development grant and commissioning of the furnaces. However, commissioning of the furnaces was not completed during the year under review and thus affected realization of the projected revenues. Projections are expected to be achieved during the financial year 2018/19 with steel fittings from KPLC, Brake blocks from KR, Shackles from General Motors and fabrication for Itare dam.

**2. Cost Of Sales**

Production Materials consumed during the year gave a shortfall of 78% of the projected cost of sales, this was occasioned by underperformance of the revenue targets.

High cost of materials and volatile market prices for steel contributed heavily to reduced gross profit margins.

**3. Recurrent Grant, Other Income and Deferred Income.**

The allocated recurrent grant allocated at the beginning of the year was Kshs 165.9 million. However, there were budget cuts during the fourth quarter and subsequently the grant was reduced to Kshs 139.4 million.

Deferred income realised from depreciation of assets bought through development grant (IAS20) were Ksh 65 million being less than the budgeted estimates of 90 million. This was mainly attributed to non realization of funding of hot dip galvaning plant. commissioning and installation of new equipment case in point being the commissioning of the furnances.

**4. Personnel Emoluments.**

Recurrent grant received during the year and internally generated revenues were not sufficient to implement promotions, annual increments and new staff recruitments and also there was a decline in staff during the year. This occasioned the drop from the projected estimates by 38%.

**5. Board Expenses**

The Board meetings and retreats for the directors were less than the estimates. This was mainly attributed to end of term of the chairman and independent directors moreover, lack of sufficient funding to implemenent the projected board expenditure.

**6. Operating/Administrative Expenses.**

The management undertook budget cuts for administrative and operating expenses since the revenues were not being realised and hence a 28% decline from the projections.

**7. Repairs and Maintenance.**

There were less machine breakdowns than the estimated budget amount during the year. This contributed to a favourable variance of 32%.

**8. Depreciation**

The variance of 28% on the depreciation of assets was mainly attributed to development budget cuts that took place during the year.

## XVI. NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Numerical Machining Complex Ltd is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the Government of Kenya through 49 % of equity held by University of Nairobi and 51% held by Kenya Railways Corporation and is domiciled in Kenya. The entity'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 at fair value, impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

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

### 3. ADOPTION OF NEW AND REVISED STANDARDS

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

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2017/18)
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39 Financial Instruments: Recognition and Measurement</u>.</p> <p>The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> <li> <b>Classification and measurement.</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other </li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
		<ul style="list-style-type: none"> <li>• comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</li> <li>• <b>Impairment.</b> The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised</li> <li>• <b>Hedge accounting.</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures</li> <li>• <b>Derecognition.</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39</li> </ul> <p><i>((The standard is not relevant to NMC Ltd for FY 2017/18</i></p>
<p>IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i></p>	<p>Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018</p>	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> <li>• Identify the contract with the customer</li> <li>• Identify the performance obligations in the contract</li> <li>• Determine the transaction price</li> <li>• Allocate the transaction price to the performance obligations in the contracts</li> <li>• Recognise revenue when (or as) the entity satisfies a performance obligation.</li> </ul> <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p><i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2018</p>	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul> <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> <li>• The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.</li> <li>• If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.</li> </ul> <p><i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p>Recognition of Deferred Tax Assets for Unrealised Losses <i>(Amendments to IAS 12)</i>  <i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> <li>• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li> <li>• The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li> <li>• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li> <li>• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other</li> </ul>

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
		deferred tax assets of the same type.  <i>The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.  <i>The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.  <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.  <i>The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date	Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4:  <ul style="list-style-type: none"> <li>• an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;</li> <li>• an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.</li> </ul> <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<p><i>Transfers of Investment Property (Amendments to IAS 40)</i> <i>(Issued 8 December 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>The amendments to <u>IAS 40 Investment Property</u>:</p> <ul style="list-style-type: none"> <li>• Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.</li> <li>• The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.</li> </ul> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p><i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <i>(Issued 8 December 2016)</i></p>	<p>The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> <li>• <b>IFRS 1</b> - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose</li> <li>• <b>IFRS 12</b> - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></li> <li>• <b>IAS 28</b> - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</li> </ul> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>

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ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021. <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul> <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>

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<p><i>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p> <p><i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> <li>• <b>IFRS 3</b> and <b>IFRS 11</b> - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</li> <li>• <b>IAS 12</b> - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</li> <li>• <b>IAS 23</b> - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings.</li> </ul> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> <li>• If a plan amendment, curtailment or</li> </ul>

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		<p>settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.</p> <ul style="list-style-type: none"> <li>In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</li> </ul> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i>. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i>.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2017/18)</i></p>

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 2018.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Revenue recognition**

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

- i) **Revenue from the design, manufacture & sale of industrial and automotive parts** is recognised in the year in which the entity delivers products to the customer, except for Training and sale of engineering software which is recognised at the completion of the training.
- ii) **Grants from National Government** are recognised in the year in which the entity actually receives such grants.
- iii) **Other income** is recognised as it accrues.

**b) Property, plant and equipment**

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

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. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. 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)**

**c) 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 costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation is calculated to write off the cost or valuation of the fixed assets in equal annual instalments over their estimated useful lives. (I.e. straight line method)

The annual rates in use are:

Leasehold	Over the unexpired period of lease
Buildings	2%
Computers	33%
Motor Vehicles	20%
Equipment, Furniture and Fittings	12.50%
Foundry, Foundry Power separator	12.50%
Plant Machinery & Equipment	12.50%
Tools & Spares	12.50%

Revalued assets are depreciated over their estimated useful lives.

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

**d) Intangible assets**

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

**e) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is 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 recognised so that the asset is written down immediately to its estimated recoverable amount.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**f) Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

All categories of Investment property are initially recorded at cost.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**g) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the FIFO method.

Work in progress is valued as a percentage of completion. Cost used to arrive at WIP includes the cost of the raw materials, labor cost and other processing costs.

**h) Deferred Income**

This related to Capital or development grants received from Government and other development partners for acquisition of Assets. Deferred Income is recognized in the Statement of Comprehensive Income over the useful life of the asset acquired.

**i) Taxation**

Taxation shall be provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with the tax legislation.

**j) Dividends**

The complex shall appropriate surplus funds with the approval of the parent Ministry, in this case the Ministry of Industrialization and the National Treasury.

**k) Employee benefits**

The complex employs some staff on contract basis with payment of gratuity which is provided for at 31% of the basic salary. The unpaid gratuity is held as a current liability to the extent that it remains unpaid.

**l) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from March 1, 2018. 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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.400 per employee per month.

**m) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectable 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.

**n) 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 Kenya Commercial Bank at the end of the financial year

**o) 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.

**p) 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.

**q) Comparative figures**

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

**r) Contingent liabilities**

The company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The management evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the managements evaluation, a present obligation has been established. Judgement and assumptions are required in:

- Assessing the existence of a present obligation (legal or constructive) as a result of a past event;
- Assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

**s) Asset revaluation reserve**

The revaluation reserve is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost. When revalued assets are sold, the portion of the revaluation reserve that relates to those assets is effectively realised and transferred directly to retained earnings. The revaluation reserve is not distributable.

**t) Budget information**

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

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of 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 XV of these financial statements.

**u) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

**i) Critical accounting judgments in applying the entity's accounting policies**

*Impairment losses on trade and other receivables*

The company reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognised through profit or loss, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**ii) Key sources of estimation uncertainty**

*Plant and equipment*

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment.

**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 11.

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.

**a) Bad and Doubtful Debts**

Debts are written off only with Board of Directors' approval

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

- **Specific provisions**

Specific provisions are made against customer debts when, in the opinion of the directors recovery is considered doubtful or they are over 6 years old.

- **General provision**

These are made at 2% of Debtors which are not under specific provision

**NOTES TO THE FINANCIAL STATEMENTS**

**1. SALES**

	2018 Kshs	2017 Kshs
Manufacture of Machine tools	594,828	104,122
Manufacture of railway brake blocks	6,276,000	6,276,000
Manufacture & Sale of water pump	303,797	535,289
Casting of ferrous foundry products	743,709	685,548
Manufacture of general spares & Components	38,489,189	34,453,682
General Fabrication	9,284,965	5,737,720
Casting non-ferrous Foundry Products	32,604	53,014
Training & Sale of Engineering software	10,601,315	4,891,902
Engineering Services	289,509	341,123
	<b>66,615,916</b>	<b>53,078,401</b>

**2. COST OF SALES**

	2017 Kshs	2017 Kshs
Opening stock	90,626,679	89,750,723
Add Purchases	25,429,871	42,647,529
Closing stock	(88,967,957)	(90,626,679)
	<b>27,088,593</b>	<b>41,771,574</b>

**3. GRANTS FROM NATIONAL GOVERNMENT**

Recurrent grants received during the year	139,425,000	165,900,000
Capital Grants received during the year	25,000,000	25,000,000
	<b>164,425,000</b>	<b>190,900,000</b>

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2017-2018
			KShs	KShs	KShs
Ministry of Industry, Trade and Co-operatives	139,425,000	65,149,437	636,097	24,936,903	25,000,000
<b>Total</b>	<b>139,425,000</b>	<b>65,149,437</b>	<b>636,097</b>	<b>24,936,903</b>	<b>25,000,000</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4. OTHER INCOME**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Sale of tender documents	1600	8,000
Sale of swarf/Disposal of obsolete items	89,615	123,035
Unpresented stale cheque	1,005,699	-
Decrease/Increase in provision for bad & doubtful debts	463,364	-
	<b>1,560,278</b>	<b>131,035</b>
	=====	=====

**5a. ADMINISTRATION COSTS**

Audit Fees	696,000	696,000
Bad Debts	-	590,503
Bank Charges	336,881	420,019
Catering and Meals	1,575,135	1,473,280
Cleaning and Sanitation	1,385,759	412,755
Computer Expenses	1,343,051	726,821
Consulting Fees	-	430,088
Depreciation	65,704,706	65,014,447
Electricity	11,366,885	11,956,382
Foreign Exchange Loss	-	-
Foundry expenses	4,612	-
General Office Expenses	922,985	449,068
Health and Safety	726,837	162,929
Quality Management Systems (ISO)	1,212,088	707,284
Insurance	402,393	581,005
Legal Fees & land expenses	197,931	6,362,786
Licences	178,400	339,135
Maintenance of Buildings	484,404	619,770
Maintenance of Office Equipment	18,365	14,250
Maintenance to Machinery	2,023,605	2,717,418
Medical Expenses	23,013,536	158,559
Penalties and Interest	-	1,005,699
Research and Development	7,553	11,335
Security services	2,690,931	2,472,000
Stationery and Office Printing	460,944	283,699
Telephone Postage and Courier	2,151,541	2,398,485
Tendering Expenses	1,810	228,000
Training	177,622	1,106,399
Travel & accommodation	1,218,078	1,994,555
Vehicle Running Expenses	2,036,719	1,825,642
Water	432,689	452,174
Withholding Tax Expense	-	71,978
	<b>120,771,460</b>	<b>105,682,464</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5(b) STAFF COSTS**

	2018 Kshs	2017 Kshs
Final Dues	3,430,692	3,747,218
Gratuity	11,747,678	20,462,063
Salaries & Wages	109,638,060	123,512,341
Staff Welfare	-	10,000
<b>TOTAL</b>	<b>124,816,429</b>	<b>147,731,622</b>

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

Permanent employees – Management	6	-
Permanent employees – Unionisable	107	-
Temporary and contract employees	4	137

**5(c) DIRECTORS EXPENSES**

Committee, Honoraria & Board Expenses	4,309,081	5,362,087
<b>TOTAL</b>	<b>4,309,081</b>	<b>5,362,087</b>

**6. SELLING AND DISTRIBUTION COSTS**

Marketing and promotional expenses	1,492,118	926,958
	<b>1,492,118</b>	<b>926,958</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**7 PROPERTY, PLANT AND EQUIPMENT**

2017	BUILDING	FOUNDRY	PLANT MACHINERY & EQUIPMENT	WORK IN PROGRESS	FOUNDRY POWER SEPARATOR	VEHICLES	FURNITURE, FITTINGS & FIXTURES	COMPUTERS & OFFICE EQUIPMENT	TOOLS & SPARES	TOTAL
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
<b>VALUATION / COST</b>										
As at 1st July, 2016	52,544,239	313,454,082	593,313,064	90,108,781	5,056,548	27,181,661	9,206,388	68,714,717	66,103,280	1,225,682,760
Additions for the year	5,105,890	-	197,611,159	1,615,655	-	-	170,975	169,360	1,210,507	205,883,546
Release to additions	-	-	-	(79,032,678)	-	-	-	-	-	(79,032,678)
As at 30th June, 2017	<b>57,650,129</b>	<b>313,454,082</b>	<b>790,924,222</b>	<b>12,691,758</b>	<b>5,056,548</b>	<b>27,181,661</b>	<b>9,377,363</b>	<b>68,884,077</b>	<b>67,313,787</b>	<b>1,352,533,629</b>
<b>DEPRECIATION</b>										
As at 1st July, 2016	16,734,302	313,454,082	365,127,119	-	4,578,132	22,985,264	6,520,263	67,982,226	65,517,637	862,899,027
Charge for the year	1,153,002	-	60,215,144	-	95,683	2,098,200	782,092	407,947	262,378	65,014,447
As at 30th June, 2017	<b>17,887,304</b>	<b>313,454,082</b>	<b>425,342,263</b>	<b>-</b>	<b>4,673,815</b>	<b>25,083,464</b>	<b>7,302,356</b>	<b>68,390,173</b>	<b>65,780,015</b>	<b>927,913,473</b>
<b>NET BOOK VALUE</b>										
As at 30th June, 2017	<b>39,762,824</b>	<b>-</b>	<b>365,581,959</b>	<b>12,691,758</b>	<b>382,733</b>	<b>2,098,197</b>	<b>2,075,007</b>	<b>493,904</b>	<b>1,533,772</b>	<b>424,620,155</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2018	<u>BUILDING</u>	<u>FOUNDRY</u>	<u>PLANT MACHINERY &amp; EQUIPMENT</u>	<u>WORK IN PROGRESS</u>	<u>FOUNDRY POWER SEPARATOR</u>	<u>VEHICLES</u>	<u>FURNITURE, FITTINGS &amp; FIXTURES</u>	<u>COMPUTERS &amp; OFFICE EQUIPMENT</u>	<u>TOOLS &amp; SPARES</u>	<u>TOTAL</u>
<u>VALUATION / COST</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>
As at 1st July, 2017	57,650,129	313,454,082	790,924,222	12,691,758	5,056,548	27,181,661	9,377,363	68,884,077	67,313,787	1,352,533,629
Additions for the year	1,613,160	-	6,445,244	3,764,800	-	-	-	256,820	331,665	12,411,689
Release to additions	-	-	-	(1,615,655)	-	-	-	-	-	(1,615,655)
As at 30th June, 2018	<b>59,263,289</b>	<b>313,454,082</b>	<b>797,369,466</b>	<b>14,840,903</b>	<b>5,056,548</b>	<b>27,181,661</b>	<b>9,377,363</b>	<b>69,140,897</b>	<b>67,645,452</b>	<b>1,363,329,662</b>
<b>DEPRECIATION</b>										
As at 1st July, 2017	17,887,304	313,454,082	425,342,263	-	4,673,815	25,083,464	7,302,356	68,390,173	65,780,015	927,913,473
Charge for the year	1,185,266	-	60,979,250	-	95,683	2,098,197	538,942	523,060	284,308	65,704,706
As at 30th June, 2017	<b>19,072,570</b>	<b>313,454,082</b>	<b>486,321,513</b>	-	<b>4,769,498</b>	<b>27,181,661</b>	<b>7,841,298</b>	<b>68,913,233</b>	<b>66,064,324</b>	<b>993,618,180</b>
<b>NET BOOK VALUE</b>										
As at 30th June, 2018	<b>40,190,719</b>	-	<b>311,047,953</b>	<b>14,840,903</b>	<b>287,050</b>	-	<b>1,536,065</b>	<b>227,664</b>	<b>1,581,128</b>	<b>369,711,482</b>

This Schedule of Property plant and Equipment includes Foundry Plant that is carried at nil value after full depreciation over eight years. The Foundry which was commissioned in 1997 was revalued in November 2013 at Kshs. 238,390,000 by Engineers from the Ministry of Transport and Infrastructure. The balance and surplus on revaluation is not included in these financial statements as they were not deliberated for adoption by the Board of Directors.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

	Cost or Valuation	Normal annual depreciation charge
Plant and machinery	625,853,751	80,915,469
	<u>625,853,751</u>	<u>80,915,469</u>
	=====	=====

The work in progress relates to a feasibility study for establishment of a steelmill at a cost of ksh 11,076,103. In addition, Installation of galvanizing plant of 3,764,800

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018 Kshs	2017 Kshs
<b>8. INVESTMENT PROPERTY</b>		
Opening valuation	290,000,000	131,006,810
Revaluation Gain	-	158,993,190
Net Book Value As at June 30 2018	290,000,000	290,000,000
	=====	=====
<p>The company has an investment of 703.67 Hectares of Land at Athi River. Out of this a total of 255.79 Hectares has been sold leaving a balance of 447.88 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.</p>		
<b>9. DEFERRED INCOME</b>		
<p>Capitalization of assets acquired from Capital Grants and recognition of costs of rehabilitation of Plant and Equipment from Capital Grant.</p>		
Buildings deferred 2008	5,298	5,298
Buildings deferred 2010	319,974	319,974
Buildings deferred 2012	32,323	32,323
Buildings deferred 2014	39,474	39,474
Buildings deferred 2015	103,984	103,984
Buildings deferred 2017	102,118	102,118
Buildings deferred 2018	32,263	-
Computers & office equipment deferred 2015	-	72,493
Computers & office equipment deferred 2016	330,000	330,000
Computers & office equipment deferred 2017	107,453	5,453
Computers & office equipment deferred 2018	85,607	-
Furniture fittings deferred 2009	-	207,635
Furniture fittings deferred 2010	-	35,515
Furniture fittings deferred 2011	41,720	41,720
Furniture fittings deferred 2012	35,874	35,874
Furniture fittings deferred 2013	74,030	74,030
Furniture fittings deferred 2014	79,096	79,096
Furniture fittings deferred 2015	239,975	239,975
Furniture fittings deferred 2016	46,875	46,875
Furniture fittings deferred 2017	21,372	21,372
Plant deferred 2010	-	41,550
Plant deferred 2013	358,025	358,025
Plant deferred 2014	10,114,434	10,114,434
Plant deferred 2015 & 2016	24,999,741	24,999,741
Plant deferred 2017	24,701,395	24,701,395
Plant deferred 2018	805,655	-
Power separator deferred 2014	95,683	95,683
Tools deferred 2010	-	19,528
Tools deferred 2014	27,672	27,672
Tools deferred 2015	23,200	23,200
Tools deferred 2016	40,665	40,665
Tools deferred 2017	151,313	151,313
Tools deferred 2018	41,458	-
Vehicles deferred 2013	-	-
Vehicles deferred 2014	2,098,200	2,098,200
<b>TOTAL</b>	<b>65,154,877</b>	<b>64,464,615</b>
	=====	=====

Reports and Financial Statements  
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	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>10. INVENTORIES</b>		
Computer Numerically Controlled machines (CNC) materials	17,081,359	21,269,996
Finished goods	16,167,288	34,717,718
Foundry raw materials	25,386,955	19,962,726
Inserts and tools	4,629,663	5,488,008
Stationery & General Stores	-	891,278
Work in progress	25,702,691	8,296,953
	<b>88,967,957</b>	<b>90,626,679</b>
	=====	=====
<b>11. (a) TRADE AND OTHER RECEIVABLES</b>		
Accountable Advances	2,992,354	2,030,819
Athi River Land Sales Receivable	6,640,331	6,640,311
Car Loans	112,904	112,904
Deposits	8,773,010	6,814,736
Prepayments	70,500	75,400
Salary Advances	1,109,296	839,649
Trade Debtors	101,323,324	93,114,022
Value Added Tax	154,391	338,771
	121,176,089	109,966,613
Less Provision for Bad Debts(11.c)	(22,892,917)	(23,356,281)
	<b>98,283,172</b>	<b>86,610,332</b>
	=====	=====
<b>11. (b) STAFF RECEIVABLES</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross staff loans and advances	1,109,296	839,649
Provision for impairment loss	(-)	(-)
	1,109,296	839,649
Less: Amounts due within one year	(1,109,296)	(839,649)
Amounts due after one year	-	-
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>11. (c) Provision for Bad and Doubtful Debts</b>	<b>2018</b>	<b>2017</b>
	Kshs	Kshs
Debtors Balance As At 30.06.18	101,323,324	93,114,022
<b>Less</b>		
Specific provision	(18,916,357)	(19,556,714)
	<u><b>82,406,967</b></u>	<u><b>73,557,308</b></u>
	=====	=====
i) Specific Provision-Debtors over six years	18,916,357	19,556,714
ii) General Provision-2% of 82,406,967	<u>1,648,139</u>	<u>1,471,146</u>
iii) Provision for bad debts 2017/2018 (i)+(ii)	20,564,496	21,027,861
iv) Provision for bad debts 2016/2017.	<u>(21,027,861)</u>	<u>(20,437,357)</u>
<b>v) Decrease/Increase in bad debts 2017/2018 (iii)-(iv)</b>	<b>( 463,364)</b>	<b>590,503</b>
	=====	=====
vi) Provision for bad debts 2016/2017 bal b/d	23,356,281	22,765,778
vii) <b>Less/Add:</b> Decrease/Increase in bad debts 2016/2017.	(463,364)	590,503
	-----	-----
<b>Provision for bad debts 2017/2018 bal c/d (vi)+(vii)</b>	<b>22,892,917</b>	<b>23,356,281</b>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

		<b>2018</b> <b>KSH</b>	<b>2017</b> <b>KSH</b>
Cash at bank	20	42,179,156	29,685,480
Cash in hand		-	-
		<u>42,179,156</u>	<u>29,685,480</u>
		=====	=====

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

The make - up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

<b>Financial institution</b>	<b>Account number</b>	<b>2017-2018</b> <b>KShs</b>	<b>2016-2017</b> <b>KShs</b>
Current account			
Kenya Commercial Bank	1107169453	6,025,739	9,372,667
Kenya Commercial Bank	1127662244	36,153,417	20,312,813
<b>Total</b>		<b>42,179,156</b>	<b>29,685,480</b>

13. ORDINARY SHARE CAPITAL

**Authorised:**

Ordinary shares of 75,000,000 @ par value of Kshs 10 each

<b>2018</b> <b>KSH</b>	<b>2017</b> <b>KSH</b>
750,000,000	750,000,000
=====	=====

The shares are owned by two entities i.e. Kenya Railways Corporation & University of Nairobi consisting of 38,250,000 and 36,750,000 shares respectively.

14. TRADE AND OTHER PAYABLES

		<b>2018</b> <b>Kshs</b>	<b>2017</b> <b>Kshs</b>
Trade Payables	(20)	26,833,248	23,088,692
Accrued Expenses		3,763,998	2,935,400
Other Payables		96,725,594	88,404,541
		<u>127,322,840</u>	<u>113,847,231</u>
		=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
**(Continued)**

**15. TAX PAYABLE**

	<b>2018 KSH</b>	<b>2017 KSH</b>
Balance brought forward	57,782,747	57,782,747
	=====	=====

**16. RELATED PARTY DISCLOSURES**

**a. Government of Kenya**

The Government of Kenya is the principal shareholder of Numerical Machining Complex Ltd, holding 100% of the entity's equity interest through 49 % held by University of Nairobi and 51% held by Kenya Railways Corporation. Other related parties include:

- Ministry of Industry Trade and Cooperatives.
- Key management.
- Board of directors.

**b. Capital Grants**

Non-current funds received during the year 2018 ksh 25,000,000 (kshs 25,000,000 - 2017)

**c. Key Management Compensation**

The management salaries, other allowances & benefits compensation for the year ended June 2018 totalled to Kshs 22,295,798 (kshs 24,843,408 -2017).

**17. CAPITAL COMMITMENTS**

Amounts authorised and not contracted for	25,000,000	25,000,000
Amounts authorised and contracted for	-	
	-----	-----
	25,000,000	25,000,000
	=====	=====

**18. CONTINGENT LIABILITIES**

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. 26,264,885 which has been outstanding for a long time. In their assessment, KRA tax audit had given a total tax payable of Kshs. 57,782,747. KRA has agreed to schedule another audit for NMC tax liabilities to clear the matter.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**19. INCORPORATION**

The company is incorporated in Kenya under the Kenyan Companies Act (Cap 486) and is domiciled in Kenya.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**20. FINANCIAL RISK MANAGEMENT**

The company's activities expose it to a variety of financial risks including credit and liquidity risks. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with whom it has contractual obligations and thus has the legal enforceable right to recover the debt.

**a) Credit risk**

Credit risk arises from trade receivables as well as cash and cash equivalents.

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

The credit risk on liquid funds with financial institutions is low. This is because the bank balances are held with regulated financial institutions and are fully performing

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2018 and 30 June 2017 is made up as follows:

	Fully Performing Ksh	Past due Ksh	Impaired Ksh	Total Ksh
At 30 June 2018				
Cash and cash equivalents	42,179,156	-	-	42,179,156
Trade receivables	14,185,265	87,138,059	(22,892,917)	78,430,407
	<u>56,364,421</u>	<u>87,138,059</u>	<u>(22,892,917)</u>	<u>120,609,563</u>
	=====	=====	=====	=====
At 30 June 2017				
Cash and cash equivalents	29,685,480	-	-	29,685,480
Trade receivables	6,125,134	86,988,888	(23,356,281)	69,757,741
	<u>35,810,614</u>	<u>86,988,888</u>	<u>(23,356,281)</u>	<u>99,443,221</u>
	=====	=====	=====	=====

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The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is past due but not impaired continues to be paid. The company is actively following this debt. The debt that is impaired has been fully provided for. However, the company is pursuing various measures to recover the impaired debt.

The bank balances are fully performing.

**b) Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows.

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

	2018 Within 1 year  Ksh	2018 Over 1year  Ksh	2017 Within 1 year  Ksh	2017 Over 1year  Ksh
<b>Financial liabilities</b>				
Trade Payables	<u>6,945,965</u>	<u>19,769,284</u>	<u>6,139,828</u>	<u>16,948,864</u>
	<b>6,945,965</b>	<b>19,769,284</b>	<b>6,139,828</b>	<b>16,948,864</b>
<b>Financial assets</b>				
Trade Receivables	14,185,265	87,138,059	6,125,134	86,988,888
Cash and cash equivalents	<u>42,179,156</u>	-	<u>29,685,480</u>	-
	<b>56,364,421</b>	<b>87,138,059</b>	<b>35,810,614</b>	<b>86,988,888</b>
<b>Net liquidity gap</b>	<b><u>49,418,457</u></b>	<b><u>67,368,775</u></b>	<b><u>29,670,786</u></b>	<b><u>70,040,024</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(c) Market risk**

The company takes on exposure to market risks, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of directors. Market risk exposures are measured by the use of sensitivity analyses. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk. The market risk exposure for the company relates primarily to currency and interest rate risk.

*(i) Currency risk*

The company is exposed to foreign exchange risk arising from trading with suppliers and customers in Euro and the USD. Exchange rate exposures are managed within approved policy parameters utilising matching of assets and liabilities.

The company did not have any currency risk exposure in the current financial period

*(ii) Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company did not have any interest paying borrowings in the current financial period hence no exposure to interest rate risk.

**XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue/Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1	Investment Property - Land	<p>The company had factored in its budget estimates for the financial year 2016/17 an approximate amount of kshs. 97.5 million to enable the exercise of revaluation, master plan on utilization, installation of concrete beacons, construction of a police post, processing of title deeds and legal services of its parcel of land located at Athi River. However, the actual amount approved for the financial year was not sufficient to undertake the exercise.</p> <p>The earlier revaluation done in 2009 amounting to 290million (131 million currently) for the remaining parcel of land measuring 415.5 hectares has been approved for adoption by the Board of Directors. In addition, the management is putting in place strategies to revalue the parcel of land to reflect current market price.</p> <p>Furthermore, the company has procured the services of a lawyer M/s Tom Ojienda and Associates to expedite the processing of title deeds for the parcel that was sold.</p>	<p>Board of Directors/MD</p> <p>Finance Manager</p>	<p>On-going</p> <p>Resolved</p>	<p>June 2020</p> <p>June 2020</p>
2	Trade and Other Receivables	Trade and other receivables that have had no movement as at 30 June 2017 are being followed up and debt	Finance manager	In-Progress	June 2019

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		<p>collection exercise is being conducted to ascertain the recoverability of the overdue receivables. In addition, the management will forward to the Board of Directors the accounts that cannot be recovered and seek authority to write-off.</p> <p>The company's credit policy is also under review and enforcement measures are being strengthened to ensure that future credit sales do not accrue beyond the stipulated credit period.</p>			
<b>3</b>	Trade and Other Payables	<p>The management is examining the state of the long outstanding payables with an aim of settling the overdue accounts so as not to place the company under risk of incurring interest and penalties.</p> <p>The strategies being employed include seeking of additional funds from the parent ministry to clear the pending bills.</p>	Finance Manager	In-Progress	June 2019
<b>4</b>	Tax Payable	<p>The management is working closely together with Kenya Revenue Authority to ensure that the tax obligation is amicably settled. It was resolved that the company first settles the tax dues that are not in dispute and further deliberations be sort to determine ways of clearing the balances. These include request for waiver of penalties and interest and tax exemption letters availed for the sales made to various customers in the years 2008/2009 to 2010/2011.</p>	MD/Finance Manager	In-Progress	June 2020

**XVIII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

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

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

**Status of Projects completion**

	<b>Project</b>	<b>Total project Cost</b>	<b>Total expended to date</b>	<b>Completion % to date</b>	<b>Budget</b>	<b>Actual</b>	<b>Sources of funds</b>
1	-	-	-	-	-	-	-

The Company did not implement any projects funded by development partners.

**XIX. APPENDIX 2: INTER-ENTITY TRANSFERS**

ENTITY NAME:		NUMERICAL MACHINING COMPLEX LTD	
Break down of Transfers from the Ministry of Industry, Trade and Cooperatives			
FY 17/18			
		2017/2018	2016/2017
<b>a. Recurrent Grants</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Amount (KShs)</u>
	01/09/2017	41,475,000	23,975,000
	04/12/2017	41,475,000	23,975,000
	13/02/2018	41,475,000	23,975,000
	26/06/2018	11,987,500	11,987,500
			70,000,000
			11,987,500
	<b>Total</b>	<b>139,425,000</b>	<b>165,900,000</b>
<b>b. Development Grants</b>			
		2017/2018	2016/2017
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Amount (KShs)</u>
	13/10/2017	12,500,000	12,500,000
	20/11/2017	6,250,000	12,500,000
	25/01/2018	6,250,000	
	<b>Total</b>	<b>25,000,000</b>	<b>25,000,000</b>
<b>c. Direct Payments</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	<b>Total</b>	-	-
<b>d. Donor Receipts</b>			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	<b>Total</b>	-	-

There was no direct payments and donor receipts for the FY2017/2018.

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**XX. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Dev elopment/Othe rs	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivabl es	Others - must be specific	
<b>Total</b>	-	-	-	-	-	-	-	-	-