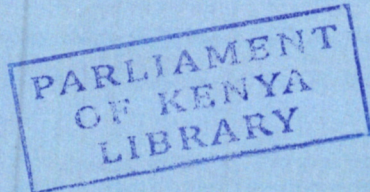


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



*Super Laid*  
By Hon. A. Duale, MP (Hon)  
On Thurs. 18.05.2017 (pm)  
*Mmm*

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
NUMERICAL MACHINING COMPLEX  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2016**





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**NUMERICAL MACHINING COMPLEX LTD**  
**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**30 JUNE 2016**

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

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**Reports and Financial Statements  
For the year ended June 30, 2016**

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**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.

**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.co.ke](http://www.nmc.co.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

**Reports and Financial Statements  
For the year ended June 30, 2016**

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**Principal Legal Advisers**

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

**Reports and Financial Statements  
For the year ended June 30, 2016**

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**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 2016.

**A YEAR OF STRATEGIC FORMULATION**

I am pleased to report that the year 2015/2016 was a year that NMC received Kshs 86.04 million for recurrent expenditure and Kshs 100 million to finance the development expenditure.

The government support during this period was 77% of the grants received in the year 2014/2015.

During the year, the newly appointed Board of Directors and the management undertook to develop a strategic plan and re-engineering the operations of the company in light of the existing challenges to turn-around the organization for increased sales and profitability.

To complement the above, the company undertook to complete 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.

Although there was a slight decrease in sales as compared to the previous year, 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 213 million in the coming year.

**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 securing NMC`s land at Mavoko in Machakos County and to set up a steel mill on the same land to be a driver of industrialization in the country.

Last but not least, I would like to thank the management and staff of NMC for their continued corporation 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.

**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 (viii-x). 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.

**Reports and Financial Statements  
For the year ended June 30, 2016**

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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, and technical committee.

**CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

As a responsible corporate citizen, Numerical Machining Complex Ltd recognizes the need to engage with its diverse public and stakeholders through CSR in order to cultivate good relations in the environment we operate in.

Numerical Machining Complex Ltd core responsibility to its various stakeholders is to work closely with them to pursue the enhancement and fulfillment of corporate values through sound business practices in order to promote a sustainable society.

The long term strategy is to engage in strategic CSR which will not only benefit our stakeholders but will also strengthen the corporation's corporate strategy and leverage on key focus areas. Some of the key drivers of CSR initiatives in the year 2015/2016 include the following.

**Internship Programs**

Numerical Machining Complex Ltd continues to offer University and middle level college students work integrated learning specific to their areas of interest in all the sections and departments. Under this program, the intern will be based at a specific business unit for a period of 3 - 4 months.

**Safety**

In the course of the year, Numerical Machining Complex Ltd organized an employee education strategy that continually sensitized staff on the benefits of safety. Selected employees of underwent basic firefighting training. In addition to this the entity purchased various health and safety gear for its staff.

**Reports and Financial Statements  
For the year ended June 30, 2016**




**THE BOARD OF DIRECTORS**

<p>Gen.(Rtd) Jeremiah M. Kianga EGH,CBS(65 years) <i>Chairman</i> He joined the Board on 27<sup>th</sup> April 2015.A former Chief of Defence Forces and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd.</p>	
<p>Ms Christine Mbando (39 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 (63 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 (49 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>	
<p>Mr. Jackson Njau Kinyanjui (61 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 (51 Years) <i>Member</i> He was appointed to the Board on 26<sup>th</sup> August 2015 as an alternate to Eng. John K Mosonik,EBS. PS Ministry of Transport and Infrastructure .He is a registered engineer and comes in with a MSc. (Civil, Transportation) from University of Nairobi. Currently he serves as the Chairman of the Mechanical Transport Fund and Senior Principal Superintending Engineer.</p>	



**Reports and Financial Statements  
For the year ended June 30, 2016**

<p>Ms. Janet N. Mugo (59 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 (51 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>Mr. Erustus Kimuri (60 years) <i>Member</i> He was appointed to the Board on 11<sup>th</sup> August 2015 as an alternate to Mr. Julius Korir, Permanent Secretary, Ministry of Industry, Investment and Trade. A registered Engineer with an MSc in Chemical Engineering, Moscow Institute of Fine Chemical Technology, Russia and is currently the Director of Industries.</p>	
<p>Eng. Benedict Kimau ( 59 years) <i>Member</i> He was appointed to the Board on 3<sup>rd</sup> September 2015 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 (55 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>	

**Reports and Financial Statements  
For the year ended June 30, 2016**

<p>Dr. Angelina Nduku Kioko (58 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 (49 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 (58 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>	

**MANAGEMENT TEAM**

 <p>Ms Christine Mbando</p>	<p>Ms Christine Mbando (39 yrs) is the Acting Managing Director and holds a Bcom (HR)-Catholic University. MBA-Management 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>Eng. Michael Thubi</p>	<p>Eng. Michael Thubi, (53 yrs) is the Research &amp; Design Manager. He holds a Bsc Mechanical Engineering (UoN) and Msc. Advanced Manufacturing Technology-University of Manchester. 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>

Reports and Financial Statements  
For the year ended June 30, 2016

 <p>Mr. Zacharia Magondu</p>	<p>Mr Zacharia Magondu (36yrs) 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 (37 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>Mr. Christopher Thiongo Maingi</p>	<p>Mr. Christopher T. Maingi (55yrs) is the Finance manager and holds CPA. He comes with a 2 year experience in the banking sector, 8 years accounting with International Centre of Insect Physiology &amp; Ecology and has served NMC as head of Finance for 11 years.</p>
 <p>Ms Ruby Kivuva</p>	<p>Ms Ruby Kivuva (34yrs) is the Marketing Manager. She holds an <i>MBA-Marketing Management BA-Communication (Public Relations)</i> and is an <i>Affiliate CIM Member</i>. She has 8 years' experience in the sales and marketing field.</p>
 <p>Mr Walter Nyamongo</p>	<p>Mr Walter Nyamongo (41yrs) is the Ag.Procurement Manager and holds an <i>Msc Procurement &amp; Logistics (JKUAT)</i> and a <i>Bsc in Tourism &amp; Wildlife Management (Moi University)</i>. He has 2 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>

**Reports and Financial Statements  
For the year ended June 30, 2016**

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**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June, 2016 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. 139,752,185 (ksh.81,216,401 – 30<sup>th</sup> June 2015).

**Directors**

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

**Auditors**

The Auditor General is responsible for the statutory audit of the entity in accordance with the Section 14 of the State corporations Act (Cap 446).

**Reports and Financial Statements  
For the year ended June 30, 2016**

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**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, 2016 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 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, 2016, 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 \_\_\_\_\_ 2017 and signed on its behalf by:

  
\_\_\_\_\_  
**Ms. Christine Mbando**  
**Ag. Managing Director**



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on pages 1 to 24, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and the 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(4) 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.

#### **Management's Responsibility for the Financial Statements**

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

The 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.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Investment Property – Land**

- (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 the land measuring 288.09 hectares to individuals and other entities whose titles have not been fully 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 outstanding since 2001 from the sale of Company's parcels of land situated at Athi River whose recoverability remains doubtful in the long run.
- (ii) Further, 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 hectares was revalued at Kshs.290m in 2009 and revaluation surplus arising thereon has not been approved by the Board and incorporated in the financial statements including the period under review contrary to the provisions of IAS 40. The Company has not provided reason for understating its assets.

Consequently, the accuracy, valuation and the security of the investment property could not be ascertained as fairly stated in the financial statements as at 30 June 2016.

#### **2. Trade and Other Receivables**

As previously reported, the trade and other receivables balance of Kshs.85,549,410 as at 30 June 2016 includes trade debtors amounting to Kshs.20,069,169 which had no movement during the year under review. Similarly, the balance of Kshs.85,549,410 includes an amount of Kshs.2,599,046 being accountable advances mainly from staff who have since left the Company's service out of which Kshs.2,340,614 has been outstanding since 2014/2015. Further, the figure Kshs.85,549,410 includes Kshs.21,730,142 credit balances that were offset against trade and other receivables which contravenes section 32 of the International Accounting Standard 1 which states that 'Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an IFRS'

Consequently, it has not been possible to confirm that the trade and other receivables balance of Kshs.85,549,410 as at 30 June 2016 is fairly stated.

### **3. Trade and Other Payables**

The trade and other payables balance of Kshs.118,901,094 as at 30 June 2016 includes trade creditors amounting to Kshs.10,242,321 which had no movement during the year under review. No explanation has been given for dormancy of these accounts or why the Company has not been discharging its obligations to others parties on timely basis and especially under other payables with a balance of Kshs.99,348,849.

Consequently, the Company risks being charged interest and penalties for not paying its creditors.

### **4. Tax Payable**

As previously reported, a tax liability of Kshs.26,264,885 has been reflected in the financial statements since 1999. However, failure to pay tax had culminated in penalties and interest totalling Kshs.31,517,862 as at 31 December 2013 as assessed by the Kenya Revenue Authority through their letter dated 30 September 2014. This amount remains outstanding and failure to pay continue to attract further penalties and interests a situation which could be avoided.

A review of the assessment letter by Kenya Revenue Authority dated 24 September 2014, indicated that Value Added Tax amounting to Kshs.3,776,303 for the years 2008/2009 to 2010/2011 was not charged on some sales which were classified as exempt yet the clients did not avail VAT exemption letter.

Failure to settle the tax obligations implies that the Company risk losing more funds as penalties and interest charges.

### **Qualified Opinion**

In my opinion except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Numerical Machining Complex Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenyan Companies Act.

### **Emphasis of Matters**

#### **1. Financial Performance**

During the year under review, the Company recorded a loss of Kshs.139,752,185 as compared to a loss of Kshs.81,216,401 during the 2014/2015, an increase of Kshs.58,535,784 (72.1%). This has culminated to a cumulative deficit in revenue reserves of Kshs.1,513,597,178. If this trend is not checked, the downward trend in financial performance could lead to Company's insolvency.

#### **2. Company's Ordinary Share Capital**

Note 13 to the financial statements and section 86 of the Articles of Association indicates that Kenya Railways Corporation own 51% of the ordinary shares in Numerical Machining

Complex and the balance or 49% is owned by University of Nairobi. The ownership is 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.

### **3. Fixed Assets Register**

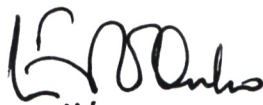
The property, plant and equipment balance of Kshs.362,783,733 is however not supported with a fixed asset register which would otherwise indicate the locality, condition and use of the asset among other details in accordance with the Public Finance Management Act, 2012 and the Company's Finance Policy Guidelines and Procedure Manual. As a result, it was not possible to ascertain the status and location of the company's assets. 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 gradual pilferage and theft.

My opinion is not qualified in respect of these matters.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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



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

**Nairobi**

**27 April 2017**

**Reports and Financial Statements  
For the year ended June 30, 2016**

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**STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME  
For the year ended 30 June 2016**

	NOTE	2016 KSHS	2015 KSHS
<b>REVENUE</b>			
Sales	2a	51,569,147	57,453,650
Cost of Sales	2b	(48,101,990)	(43,948,604)
Gross profit		<u>3,467,157</u>	<u>13,505,046</u>
Government Recurrent Grant	3	86,047,500	110,400,000
Deferred Income Recognized	9	42,456,936	18,096,975
Other Operating Income	4	42,100	6,566,687
<b>TOTAL REVENUE</b>		<u>132,013,693</u>	<u>148,568,708</u>
<b>OPERATING EXPENSES</b>			
Administrative Expenses	5a	(109,466,906)	(78,262,554)
Directors Expenses	5c	(5,478,190)	-
Staff Costs	5b	(156,188,844)	(149,900,963)
Selling and Distribution	6	(631,938)	(1,621,592)
		<u>(271,765,878)</u>	<u>(229,785,109)</u>
<b>NET PROFIT /(LOSS)</b>		<u>(139,752,185)</u> =====	<u>(81,216,401)</u> =====

Reports and Financial Statements  
For the year ended June 30, 2016

**STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2016**

	NOTES	2016 KSHS	2015 KSHS
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	7	362,783,733	261,515,803
Investment property	8	131,006,810	131,006,810
<b>Total Non-Current Assets</b>		<b>493,790,543</b>	<b>392,522,613</b>
<b>Current Assets</b>			
Inventories	10	89,750,723	119,560,674
Trade and other receivables	11a	85,549,410	80,821,828
Bank and Cash Balances	12	156,821,039	337,734,245
<b>Total Current Assets</b>		<b>332,121,172</b>	<b>538,116,747</b>
<b>TOTAL ASSETS</b>		<b>825,911,715</b>	<b>930,639,360</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
		680,745,736	763,121,758
<b>Total Capital and Reserves</b>		<b>680,745,736</b>	<b>763,121,758</b>
<b>Current Liabilities</b>			
Tax payable	15	26,264,885	26,264,885
Trade and Other Payables	14/20	118,901,094	147,716,162
<b>Total Current Liabilities</b>		<b>145,165,979</b>	<b>173,981,047</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>825,911,715</b>	<b>930,639,360</b>

The financial statements were approved by the Board on \_\_\_\_\_ 2017 and signed on its behalf by:

  
Agv Managing Director

  
Chairman

Reports and Financial Statements  
For the year ended June 30, 2016

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 30 June 2016**

	NOTE	Government grants kshs.	Revenue reserves (losses) as restated kshs.	Capital Grants Kshs.	Total kshs.
<b>At 1st July 2014 As Reported</b>		<b>1,214,024,646</b>	<b>(1,298,925,138)</b>	<b>810,122,181</b>	<b>725,221,689</b>
Prior Period Adjustment	20		6,296,546	-	6,463,446
Capital Grants Received 2014/2015				130,750,000	130,750,000
Depreciation on assets bought from capital grants				(18,096,975)	(18,096,975)
Net profit (loss) for the year		-	(81,216,401)		(81,216,401)
<b>Balance Restated As at 30th June 2015</b>		<b>1,214,024,646</b>	<b>(1,373,844,993)</b>	<b>922,775,205</b>	<b>762,954,858</b>
<b>Balance restated as at 1st July 2015</b>		<b>1,214,024,646</b>	<b>(1,373,844,993)</b>	<b>922,775,205</b>	<b>763,121,758</b>
Capital Grants Received 2015/2016				100,000,000	100,000,000
Depreciation on assets bought from capital grants				(42,456,936)	(51,659,378)
Net profit (loss) for the year		-	(139,752,185)		(139,752,185)
<b>Balance As at 30th June 2016</b>		<b>1,214,024,646</b>	<b>(1,513,597,178)</b>	<b>980,318,268</b>	<b>680,745,736</b>
<b>Balance Restated As at 30th June 2015</b>		<b>1,214,024,646</b>	<b>(1,373,844,993)</b>	<b>922,775,205</b>	<b>762,954,858</b>

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 (980,318,268 -922,775,206) in the two years is recognised in the statement of cashflows under financing activities.

Reports and Financial Statements  
For the year ended June 30, 2016

**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2016**

	Notes	2016 KSHS	2015 KSHS
<b>OPERATING ACTIVITIES</b>			
Profit (Loss) Before Taxation		(139,752,185)	(81,216,401)
Adjustments for:-			
Depreciation	7	43,006,768	18,646,803
Prior Period Adjustment	20	-	6,296,546
		<u>(96,745,417)</u>	<u>(56,273,053)</u>
<b>WORKING CAPITAL CHANGES</b>			
Increase/ Decrease in Stocks		29,809,951	19,270,586
Increase/ Decrease in Debtors and Prepayments		(4,727,583)	12,666,540
Increase/ Decrease in Creditors and Accruals		(22,518,524)	64,504,152
		<u>(94,181,573)</u>	<u>40,168,225</u>
<b>Net Cash generated from Operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets	7	(144,274,698)	(155,044,385)
		<u>(144,274,698)</u>	<u>(155,044,385)</u>
<b>Net Cash generated from investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Increase in Long term liability capital grant (See the movement in Statement of Changes in Equity)		57,543,064	112,653,025
		<u>57,543,064</u>	<u>112,653,025</u>
<b>Net Cash generated from financing activities</b>			
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(180,913,207)</b>	<b>(2,223,134)</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1ST JULY 2015</b>		<b>337,734,245</b>	<b>339,957,379</b>
<b>CASH AND CASH EQUIVALENTS AS AT 30TH JUNE 2016</b>		<b>156,821,039</b>	<b>337,734,245</b>
		=====	=====

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016 (Kshs “000”)**

<b>Recurrent Revenue</b>	<b>Original Budget</b>	<b>Adjustment</b>	<b>Final Budget</b>	<b>Actual Expenditure</b>	<b>Performance Difference</b>	<b>Percentage Variation</b>
Gross sales Income	240,229	(51,042)	189,187	51,569	(137,618)	(73%)
Cost of Sales	(110,330)	43,611	(66,719)	(48,102)	18,617	(28%)
<b>Gross Profit</b>	<b>129,899</b>	<b>7,431</b>	<b>122,468</b>	<b>3,467</b>	<b>(119,001)</b>	
Grant Recurrent	152,000	(62,600)	89,400	86,048	(3,352)	(4%)
Other Income & Deferred Income	95,010	(64,254)	30,756	42,499	11,743	(38%)
<b>Total Recurrent Revenue</b>	<b>376,909</b>	<b>(134,284)</b>	<b>242,625</b>	<b>132,014</b>	<b>(110,611)</b>	
<b>Operating Expenses</b>						
Personnel Emoluments	177,000	(3,000)	174,000	156,189	17,811	10%
Board Expenses	10,000	-	10,000	5,478	4,522	45%
Operating/Administrative Expenses	90,830	(3,271)	94,101	63,782	30,319	32%
Repairs and Maintenance	14,600	(8,600)	6,000	3,310	2,690	45%
Depreciation	63,510	(32,754)	30,756	43,007	12,251	(40%)
<b>Total Operating Expenses</b>	<b>355,940</b>	<b>(41,065)</b>	<b>314,875</b>	<b>271,766</b>	<b>43,109</b>	
<b>Operating Profit/Loss</b>	20,969	(51,264)	(72,233)	(139,752)	(67,519)	

**1. Gross Sales Income**

The company achieved 30% of the projected revenues giving a variance of 137 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. Development grant of Kshs 814 million for purchase of capital equipment was not received in full, the company only got allocation of Kshs. 100 million and commissioning of the furnaces was not completed during the year under review and thus affected realization of the projected revenues. However, projections are expected to be achieved during the financial year 2016/17.

**2. Cost Of Sales**

Production Materials consumed during the year gave a shortfall of 28% 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.**

The allocated recurrent grant at the beginning of the year was slashed during the fourth quarter of the financial year.

**4. Other Income and Deferred Income.**

Deferred income realised from depreciation of assets bought through development grant (IAS20) were more than the budgeted estimates by 38%. This was mainly attributed to commissioning and installation of new equipment case in point being the acquisition of a Turnmill machine.

**5. Personnel Emoluments.**

Recurrent grant received during the year and internally generated revenues were not sufficient to implement promotions, annual increments and new staff recruitments this occasioned the drop from the projected estimates by 17.8 million.

**6. Board Expenses**

The Board meetings and retreats for the directors were less than the estimates. This was mainly attributed to lack of sufficient funding to implemenent the estimated board expenses.

**7. Operating/Administrative Expenses.**

The management undertook budget cuts for administrative and operating expenses since the revenues were not being realised and hence a 32% decline from the projections.

**8. Repairs and Maintenance.**

There were fewer machine breakdowns as earlier anticipated and commissioning of new equipments also eased the workload on the machines and therefore performance was improved and the period for routine maintenance were staggered. This contributed to the 45% variance from the budget.

**9. Depreciation**

The variance of 40% on the depreciation of assets was mainly attributed to new machines being installed and commissioned earlier than was scheduled.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The financial statements have been prepared on a historical cost basis. 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.

### **b) 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.

### **c) Property, plant and equipment**

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

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.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the 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

**e) Bad and Doubtful Debts**

Debts are written off only with Board of Directors' approval

**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

**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.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 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) 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.

**m) 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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) 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.

**o) Comparative figures**

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

**p) Subsequent events**

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

**q) Critical accounting estimates and judgements in applying accounting policies**

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.

**NOTES TO THE FINANCIAL STATEMENTS**

**r) Going Concern**

The company recorded a loss of K.Shs. 139 million which is a decline from K.Shs. 81 million loss recorded in 2014/2015. Sales revenue decreased by 10 percent from K.Shs. 57 million in 2014/2015 to K.Shs. 51 million.

Historical records indicate that the company continued operations depending upon the support of the government. However the current investment in Plant and Equipment reflects a potential for improvement in operations especially at the Foundry where induction furnaces have been installed.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

**2a SALES**

	2016 Kshs	2015 Kshs
Manufacture of Machine tools	884,266	1,573,260
Manufacture of railway brake blocks	1,193,840	-
Manufacture & Sale of water pump	807,936	458,621
Casting of ferrous foundry products	1,370,793	1,817,253
Manufacture of general spares & Components	33,163,237	38,681,474
General Fabrication	10,131,865	2,229,744
Casting non-ferrous Foundry Products	30,000	343,291
Training & Sale of Engineering software	3,987,210	12,350,007
	<b>51,569,147</b>	<b>57,453,650</b>

**2b. COST OF SALES**

	2016 Kshs	2015 Kshs
Opening stock	119,560,674	138,831,260
Add Purchases	18,292,039	24,678,018
Closing stock	(89,750,723)	(119,560,674)
	<b>48,101,990</b>	<b>43,948,604</b>

**3. GRANTS FROM NATIONAL GOVERNMENT**

Recurrent grants received during the year	86,047,500	110,400,000
	<b>86,047,500</b>	<b>110,400,000</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. OTHER INCOME

	2016 Kshs	2015 Kshs
Sale of tender documents	-	162,660
Sale of swarf	42,100	301,878
Decrease/Increase in provision for bad & doubtful debts		6,102,149
	<b>42,100</b> =====	<b>6,566,687</b> =====

5a. ADMINISTRATION COSTS

Audit Fees	696,000	696,000
Bad Debts	8,353,519	-
Bank Charges	352,107	456,935
Catering and Meals	1,578,698	1,382,828
Cleaning and Sanitation	308,981	490,921
Computer Expenses	1,355,350	730,218
Consulting Fees	674,400	250,000
Corporate Social Responsibility	-	1,102,500
Depreciation	43,006,768	18,646,803
Electricity	7,433,514	8,192,430
Foreign Exchange Loss	872	-
Foundry expenses	13,678	406,572
General Office Expenses	218,776	525,484
Health and Safety	205,298	411,915
Quality Management Systems (ISO)	753,426	315,873
Insurance	29,233,270	24,602,107
Legal Fees & land expenses	2,053,200	2,199,500
Licences	26,700	150,200
Maintenance of Buildings	335,580	1,055,106
Maintenance of Office Equipment	-	324,084
Maintenance to Machinery	2,974,441	2,368,684
Research and Development	80,051	5,080
Security services	2,266,000	1,877,586
Stationery and Office Printing	584,509	582,772
Telephone Postage and Courier	1,922,711	2,390,873
Tendering Expenses	-	561,900
Training	907,062	3,338,321
Travel & accommodation	2,640,628	3,082,304
Vehicle Running Expenses	1,202,541	1,822,510
Water	288,827	293,047
	<b>109,466,906</b> =====	<b>78,262,554</b> =====

Reports and Financial Statements  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5(b) STAFF COSTS

	2016 Kshs	2015 Kshs
Final Dues	-	1,237,454
Gratuity	22,296,283	22,330,191
Salaries & Wages	133,714,407	125,726,081
Special duty Allowance	-	17,436
Staff Welfare	178,154	589,800
<b>TOTAL</b>	<b>156,188,844</b>	<b>149,900,963</b>

5(c) DIRECTORS EXPENSES

Committee, Honoraria & Board Expenses	5,478,190	-
<b>TOTAL</b>	<b>5,478,190</b>	<b>-</b>

6. SELLING AND DISTRIBUTION COSTS

Marketing and promotional expenses	631,938	1,621,592
	<b>631,938</b>	<b>1,621,592</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 PROPERTY, PLANT AND EQUIPMENT

2015	BUILDING	FOUNDRY	PLANT MACHINERY & EQUIPMENT	WORK IN PROGRESS	FOUNDRY POWER SEPARATOR	VEHICLES	FURNITURE, FITTINGS & FIXTURES	COMPUTERS & OFFICE EQUIPMENT	TOOLS & SPARES	TOTAL
VALUATION / COST	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
As at 1st July, 2014	47,345,062	313,454,082	393,315,138	-	5,056,548	27,181,661	6,911,588	67,599,237	65,592,360	926,455,677
Additions for the year	5,199,177	-	84,831,839	62,690,490	-	-	1,919,800	217,480	185,600	155,044,385
Disposals	-	-	-	-	-	-	-	-	-	-
As at 30th June, 2015	<b>52,544,239</b>	<b>313,454,082</b>	<b>478,146,977</b>	<b>62,690,490</b>	<b>5,056,548</b>	<b>27,181,661</b>	<b>8,831,388</b>	<b>67,816,717</b>	<b>65,777,960</b>	<b>1,081,500,062</b>
<b>DEPRECIATION</b>										
As at 1st July, 2014	14,632,533	313,454,082	318,329,139	-	3,313,995	16,242,144	5,045,374	64,984,015	65,336,173	801,337,456
Charge for the year	1,050,885	-	10,910,013	-	632,068	3,371,560	714,168	1,897,709	70,400	18,646,803
Release on disposals	-	-	-	-	-	-	-	-	-	-
As at 30th June, 2015	<b>15,683,417</b>	<b>313,454,082</b>	<b>329,239,152</b>	<b>-</b>	<b>3,946,064</b>	<b>19,613,704</b>	<b>5,759,543</b>	<b>66,881,724</b>	<b>65,406,573</b>	<b>819,984,259</b>
<b>NET BOOK VALUE</b>										
As at 30th June, 2015	<b>36,860,821</b>	<b>-</b>	<b>148,907,824</b>	<b>62,690,490</b>	<b>1,110,484</b>	<b>7,567,957</b>	<b>3,071,846</b>	<b>934,994</b>	<b>371,387</b>	<b>261,515,803</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2016	BUILDING	FOUNDRY	PLANT MACHINERY & EQUIPMENT	WORK IN PROGRESS	FOUNDRY POWER SEPARATOR	VEHICLES	FURNITURE, FITTINGS & FIXTURES	COMPUTERS & OFFICE EQUIPMENT	TOOLS & SPARES	TOTAL
VALUATION / COST	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
As at 1st July, 2015	52,544,239	313,454,082	478,146,977	62,690,490	5,056,548	27,181,661	8,831,388	67,816,717	65,777,960	1,081,500,062
Additions for the year	-	-	115,166,087	27,418,291	-	-	375,000	990,000	325,320	144,274,698
Prior Period Adjustment								(92,000)		(92,000)
Release to additions	-	-	-	-	-	-	-	-	-	-
As at 30th June, 2016	<b>52,544,239</b>	<b>313,454,082</b>	<b>593,313,064</b>	<b>90,108,781</b>	<b>5,056,548</b>	<b>27,181,661</b>	<b>9,206,388</b>	<b>68,714,717</b>	<b>66,103,280</b>	<b>1,225,682,760</b>
<b>DEPRECIATION</b>										
As at 1st July, 2015	15,683,417	313,454,082	329,239,152	-	3,946,064	19,613,704	5,759,543	66,881,724	65,406,573	819,984,259
Charge for the year	1,050,885	-	35,887,967	-	632,069	3,371,560	760,721	1,192,503	111,065	43,006,768
Prior Period Adjustment	-	-	-	-	-	-	-	(92,000)	-	(92,000)
As at 30th June, 2016	<b>16,734,302</b>	<b>313,454,082</b>	<b>365,127,119</b>	<b>-</b>	<b>4,578,132</b>	<b>22,985,264</b>	<b>6,520,263</b>	<b>67,982,226</b>	<b>65,517,637</b>	<b>862,899,027</b>
<b>NET BOOK VALUE</b>										
As at 30th June, 2016	<b>35,809,937</b>	<b>-</b>	<b>228,185,944</b>	<b>90,108,781</b>	<b>478,416</b>	<b>4,196,397</b>	<b>2,686,125</b>	<b>732,491</b>	<b>585,643</b>	<b>362,783,733</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 9,684,332 and a further 1,391,770 for the same study. In addition, civil works and Installation and commissioning of 1000KG, 250KG furnaces and Heat Treatment at the foundry workshop at a cost of 79,032,679.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016	2015
	Kshs	Kshs
<b>8. INVESTMENT PROPERTY</b>		
Opening valuation	131,006,810	131,006,810
	=====	=====
<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 to Kshs. 290 million done in 2009 was not adopted by a Board of Directors for inclusion in the financial statements.</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
Computers & office equipment deferred 2013	-	1,035,206
Computers & office equipment deferred 2014	790,009	790,009
Computers & office equipment deferred 2015	72,493	72,493
Computers & office equipment deferred 2016	330,000	-
Furniture fittings deferred 2008	-	327
Furniture fittings deferred 2009	207,635	207,635
Furniture fittings deferred 2010	35,515	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	-
Plant deferred 2008	-	161,806
Plant deferred 2009	374,218	234,198
Plant deferred 2010	41,550	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	-
Power separator deferred 2009	536,385	536,385
Power separator deferred 2014	95,683	95,683
Tools deferred 2010	19,528	19,528
Tools deferred 2014	27,672	27,672
Tools deferred 2015	23,200	23,200
Tools deferred 2016	40,665	-
Vehicles deferred 2013	1,273,360	1,273,360
Vehicles deferred 2014	2,098,200	2,098,200
<b>TOTAL</b>	<b>42,456,936</b>	<b>18,096,975</b>
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<b>2016</b>	<b>2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>10. INVENTORIES</b>		
Computer Numerically Controlled machines (CNC) materials	18,802,832	43,901,556
Finished goods	38,974,000	37,581,462
Foundry raw materials	19,731,051	22,834,106
Inserts and tools	5,512,287	6,679,259
Stationery & General Stores	1,116,822	1,410,464
Work in progress	5,613,733	7,153,827
	<b>89,750,723</b>	<b>119,560,674</b>
	=====	=====

**11. (a) TRADE AND OTHER RECEIVABLES**

Accountable Advances	2,844,423	2,565,082
Athi River Land Sales Receivable	6,640,311	6,640,311
Car Loans	112,904	112,904
Deposits	2,913,162	4,075,038
Prepayments	6,509,582	-
Salary Advances	1,501,013	1,802,792
Trade Debtors	87,793,794	80,037,960
Value Added Tax	-	-
	108,315,188	95,234,087
Less Provision for Bad Debts(11.c)	(22,765,778)	(14,412,259)
	<b>85,549,410</b>	<b>80,821,828</b>
	=====	=====

Athi River land sales receivables includes deposits paid and monies owed through agents,lawyers legal fees totalling to 20 million.

**11. (b) STAFF RECEIVABLES**

	<b>2016</b>	<b>2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross staff loans and advances	1,501,013	1,802,792
Provision for impairment loss	(-)	(-)
	1,501,013	1,802,792
Less: Amounts due within one year	(1,501,013)	(1,802,792)
Amounts due after one year	-	-
	=====	=====

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

<b>11. (c) Provision for Bad and Doubtful Debts</b>	<b>2016</b>	<b>2015</b>
	Kshs	Kshs
Debtors Balance As At 30.06.16	87,793,794	80,037,960
<b>Less</b>		
Specific provision	(19,062,736)	(10,697,020)
	<u><b>68,731,057</b></u>	<u><b>69,340,940</b></u>
	=====	=====
i) Specific Provision-Debtors over six years	19,062,736	10,697,020
ii) General Provision-2% of 68,731,057	<u>1,374,621</u>	<u>1,386,819</u>
iii) Provision for bad debts 2015/2016 (i)+(ii)	20,437,357	12,083,839
iv) Provision for bad debts 2014/2015.	<u>(12,083,839)</u>	<u>(18,185,987)</u>
<b>v) Decrease/Increase in bad debts 2015/2016 (iii)-(iv)</b>	<b>8,353,519</b>	<b>(6,102,149)</b>
	=====	=====
vi) Provision for bad debts 2014/2015 bal b/d	14,412,259	20,514,408
vii) <b>Less/Add:</b> Decrease/Increase in bad debts 2015/2016.	8,353,519	(6,102,149)
	<u><b>22,765,778</b></u>	<u><b>14,412,259</b></u>
<b>Provision for bad debts 2015/2016 bal c/d (vi)+(vii)</b>	<b>22,765,778</b>	<b>14,412,259</b>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

	2016 KSH	2015 KSH
Cash at bank	156,821,039	337,734,245
Cash in hand	-	-
	<u>156,821,039</u>	<u>337,734,245</u>
	=====	=====

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

13. ORDINARY SHARE CAPITAL

**Authorised:**

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

	2016 KSH	2015 KSH
	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

		2016 Kshs	2015 Kshs
Trade Payables	(20)	16,616,847	67,499,721
Accrued Expenses		2,935,400	1,499,400
Other Payables		99,348,847	72,253,597
		<u>118,901,094</u>	<u>141,252,718</u>
		=====	=====

15. TAX PAYABLE

	2016 KSH	2015 KSH
Balance brought forward	<u>26,264,885</u>	<u>26,264,885</u>
	=====	=====

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

**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.

**b. Capital Grants**

Non-current funds received during the year ksh100,000,000 (kshs 130,750,000 - 2015)

**c. Key Management Compensation**

The management salaries, other allowances & benefits compensation for the year ended June 2016 totalled to Kshs 23,905,452 (kshs 24,115,142 -2015).

**17. CAPITAL COMMITMENTS**

Amounts authorised and not contracted for	130,750,000
Amounts authorised and contracted for	-
	- 130,750,000
	=====

**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. The matter is still under consideration and consultative meeting are underway.

**19. INCORPORATION**

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

**20. PRIOR PERIOD ADJUSTMENT**

The prior period adjustment of kshs 6,296,546 relates to trade creditors which had not shown any movement and investigation revealed they were book balances not supported by actual claims by the suppliers.

As per IAS 8, the opening balance of statement of changes in equity, cash flow statement and trade creditors have been appropriately adjusted.

## 21. 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 2016 and 30 June 2015 is made up as follows:

	Fully Performing Ksh	Past due Ksh	Impaired Ksh	Total Ksh
At 30 June 2016				
Cash and cash equivalents	156,821,039	-	-	156,821,039
Trade receivables	15,697,279	72,096,515	(22,765,778)	65,028,016
	<u>172,518,318</u>	<u>72,096,515</u>	<u>(22,765,778)</u>	<u>221,849,055</u>
	=====	=====	=====	=====
At 30 June 2015				
Cash and cash equivalents	337,734,245	-	-	337,734,245
Trade receivables	8,922,340	71,115,619	(14,412,259)	65,625,700
	<u>346,656,585</u>	<u>71,115,619</u>	<u>(14,412,259)</u>	<u>403,359,945</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.

	2016 Within 1 year  Ksh	2016 Over 1year  Ksh	2015 Within 1 year  Ksh	2015 Over 1year  Ksh
<b>Financial liabilities</b>				
Trade Payables	<u>1,250,063</u>	<u>15,366,784</u>	<u>52,252,892</u>	<u>21,710,276</u>
	<b><u>1,250,063</u></b>	<b><u>15,366,784</u></b>	<b><u>52,252,892</u></b>	<b><u>21,710,276</u></b>
<b>Financial assets</b>				
Trade Receivables	15,697,279	72,096,515	8,922,340	71,115,619
Cash and cash equivalents	<u>156,821,039</u>	-	<u>337,734,245</u>	-
	<b><u>172,518,318</u></b>	<b><u>72,096,515</u></b>	<b><u>346,656,585</u></b>	<b><u>71,115,619</u></b>
<b>Net liquidity gap</b>	<b><u>171,268,255</u></b>	<b><u>56,729,731</u></b>	<b><u>294,403,693</u></b>	<b><u>49,405,343</u></b>

**(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.

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**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: (Resolved / Not Resolved)	Timeframe:
1	Investment Property - Land	<p>The company had factored in its budget estimates for the financial year 2015/16 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>	Board of Directors	Not Resolved	June 2018
2	Trade and Other Receivables	Trade and other receivables that have had no movement as at 30 June 2015 are being followed up and debt	Finance manager	Not resolved	June 2017

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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	Not Resolved	June 2017
<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	Not resolved	June 2017