

REPUBLIC OF KENYA



Paper 1010
By the Whip of the
Majority party
Hon. Karo Oke
Metis on Thursday
9 July 2015

KENYA NATIONAL AUDIT OFFICE

REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**





NUMERICAL MACHINING COMPLEX LTD

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2014**

Prepared in accordance with the Accrual Basis of Accounting Method under the
International Public Sector Accounting Standards (IPSAS)

**Reports and Financial Statements
For the year ended June 30, 2014**

CONTENTS	PAGE
Key Entity Information	2-3
Report of the Ag. Managing Director	4
Corporate Governance Statement	5
Corporate Social Responsibility Statement	6
Board of Directors	7
Management Team	7-8
Report of the Directors	9
Statement of Directors' Responsibilities	10
Report of the Independent Auditor/Auditor General	11-14
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Summary of Significant Accounting Policies	19-22
Explanatory Notes to the Financial Statements	23-36

Numerical Machining Complex Ltd

Reports and Financial Statements For the year ended June 30, 2014

KEY ENTITY INFORMATION

Background information

The Numerical Machining Complex Ltd was established by the Companies Act on 4th 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 Officer

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

Corporate Headquarters

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Corporate Contacts

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+245 716 431 113

E-mail: enquiries.co.ke
Website: enquiries@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, 2014**

Principal Legal Advisers

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

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 30th June 2014.

A YEAR OF INVESTMENT IN ASSET BASE

I am pleased to report that the year 2013/2014 was a record year that NMC received the highest support from our government. NMC received Kshs 88.9 million for recurrent expenditure and Kshs 435 million to finance the development expenditure. Through this support NMC commenced the procurement of various production and auxiliary equipment that were a priority to improve the production capacity and also expand our market range. Among the equipment whose contracts have been signed are two induction furnaces and heat treatment equipment to improve our casting capacity. Quality control equipment was also contracted which include hardness tester and spectrometer.

Our computer Numerically Controlled (CNC) and Fabrication workshop was also catered for. Procurement of turning and milling equipment was also commenced. These are meant to replace the equipment purchased in 1990/1991.

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.

**Reports and Financial Statements
For the year ended June 30, 2014**

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 2. 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 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, 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 2013/2014 include the following.

Donations

During the financial year 2013/2014 the entity took part in the annual Mater Hospital Heart run to help raise funds for operation of children who suffer heart conditions.

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, 2014

 <p>Eng. Michael Thubi</p>	<p>Eng. Michael Thubi, (52 yrs) is the Research & 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 (35yrs) 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 Christine Mbando</p>	<p>Ms Christine Mbando (38 yrs) is the Human Resource Manager and holds a <i>Bcom (HR)-Catholic University. MBA-Management University of Africa</i>. She has 13 years' experience as an HR professional and two and half years as Ag. Managing Director at Numerical Machining Complex.</p>
 <p>Mr. Christopher Thiongo Maingi</p>	<p>Mr. Christopher T. Maingi (54yrs) is the Finance manager and holds CPA(k). He comes with a 2 year experience in the banking sector, 8 years accounting with International Centre of Insect Physiology & Ecology and has served NMC as head of Finance for 11 years.</p>
 <p>Ms Ruby Kivuva</p>	<p>Ms Ruby Kivuva (33yrs) is the Marketing Manager. She holds an <i>MBA-Marketing Management BA-Communication (Public Relations) and is an 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 (40yrs) is the Ag. Procurement Manager and holds an <i>Msc Procurement & Logistics (JKUAT) and a Bsc in Tourism & 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, 2014

THE BOARD OF DIRECTORS

1.	Prof. Nick G. Wanjohi	Chairman	Left on 16 th January 2014
2.	Mr. Njoroge Muhu	Member	Alternate to Dr. Kamau Thugge, EBS Permanent Secretary, National Treasury Left on 16 th January 2014
3.	Amb. Joseph Kiplagat	Member	Alternate to Dr. Wilson Songa Permanent Secretary, Ministry of Industrialization & Enterprise Development Left on 16 th January 2014
4.	Mr. Moses Maina	Member	Alternate to Eng. John K Mosonik EBS. PS Ministry of Transport and Infrastructure Left on 16 th January 2014
5.	Mr. Muaa Mutinda	Member	Alternate to Prof. Colleta Suda CBS, PS Ministry of Higher Education Left on 16 th January 2014
6.	Mr Abdi Mohamud Hassan	Member	Left On 16 th January 2014
7.	Ms. Sarah Mbwaya	Member	Left On 16 th January 2014
8.	Mr. Andrew Mitei	Member	Left On 16 th January 2014
9.	Eng. Bernard Ngore	Member	Left On 16 th January 2014
10.	Ms. Joyce K. Mulinge	Member	Left On 16 th January 2014
11.	Mr. Joseph E.T. Janga	Member	Left On 16 th January 2014
12.	Mr Gordon Onjore Ag. Managing Director		Post graduate Dip.-Business Admin(University of Leicester(U.K) Production Engineering Industrial & Manufacturing (Moi University) Appointed on 20 th September 2013

The board of directors was suspended after the court judgement delivered by Justice James Rika on 16th January, 2014 in petition No.35 of 2012 George Onyango Vs Board of Directors Numerical Machining Complex.

MANAGEMENT TEAM

 Mr. Gordon Onjore Ag. Managing Director.	He (45yrs) is the Ag. Managing Director. He has a <i>Post graduate Dip.-Business Admin(University of Leicester (U.K) Production Engineering Industrial& Manufacturing (Moi University)</i> He has over twenty years' experience centred on system and product quality both in the private and public sector.
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**Reports and Financial Statements
For the year ended June 30, 2014**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the 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 171,549,263 (74,568,486 – 30th June 2013).

Directors

The members of the Board of Directors who served during the year are shown on page 2. In accordance with Regulation of the State corporations Act (Cap 446)

The board of directors was suspended after the court judgement delivered by Justice James Rika on 16th January, 2014 in petition No.35 of 2012 George Onyango Vs Board of Directors Numerical Machining Complex.

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).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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


The Directors are responsible for the preparation 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 June 30, 2014 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 June 30, 2014, 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 28/5/ 2015 and signed on its behalf by:

for 
Mr. Gordon Onjore
Ag. Managing Director

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Numerical Machining Complex set out on pages 15 to 36, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cashflows for the year then ended, together with 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 14 of the Public Audit Act, 2003. 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 Public Sector Accounting Standards (Accrual Basis) 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 13 of the Public Audit Act, 2003.

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 15 of the Public Audit Act, 2003 and submit the report in accordance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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. Land

- (i) As previously reported, the Government of Kenya 1994 allocated the Company land measuring approximately 703.59 hectares under title LR. NO.63767 located in Athi River. In 2001, the company with the consent of the Government sold to individuals and other entities part of the land measuring 288.09 hectares. The Company however, continues to pay land rates on the original title since it has not processed title documents for individuals who already have paid for the land. Further, an amount of Kshs.6,640,310 from the above sale of the land has been outstanding over fifteen years since. The recoverability of this balance of Kshs.6,640,310 remains doubtful.

Consequently, the company has not explained what steps it intends to take to recover the amounts.

- (ii) In addition, the remaining portion of approximately 415.5 hectares is not fenced and has been encroached by squatters and other parties who have since put up permanent structures on the land. Further, the said portion of the un-sold land measuring 415.5 hectares was valued at Kshs.290 million in 2009 but the revaluation balances and surplus thereof have not been incorporated in any of the financial statements including for the period under review.

No reason has been provided for this unsatisfactory state of affairs of assets understatement.

2. Tax Payable

As previously reported, included in the current liabilities of Kshs.105,316,617 is a tax liability of Kshs.26,264,885 which had been carried forward over the years since 1999. The management indicated that the tax arose from self-assessment of interest income on consideration that this was a specified source of income and would attract further tax besides the tax withheld at source. The apparent failure by the management to pay the tax over the years has culminated in penalties and interest being imposed on the outstanding tax thus substantially increasing the liability by Kshs.31,517,862.

Further, during the review of the assessment letter by the Kenya Revenue Authority dated 24 September 2014, it was noted that Value Added Tax amounting to Kshs. 3,776,303 for

the years 2008/2009 to 2011/2012 were not charged on some sales which were classified as exempt yet no exemption letter was availed by the customers.

Consequently, the balance has also increased by Kshs.2,885,160 leading to a cumulative figure of Kshs.6,661,464 due to KRA arising from non-compliance to the law.

In view of the foregoing, the unpaid interest penalties of Kshs.31,517,862 and the unpaid value added tax of Kshs.2,885,160 were voidable expenditure

3. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.93,488,368 as at 30 June 2014 includes trade debtors amounting to Kshs.75,267,631 out of which Kshs.18,598,958 had no movement during the year under review. No explanation has been given as to why the long outstanding debts have not been recovered. Accordingly, it has not been possible to confirm that the trade and other receivables balance of Kshs.93,488,368 is fairly stated as at 30 June 2014.

4. Trade and Other Payables

Trade and other payables balance of Kshs.79,051,732 as at 30 June 2014 includes trade creditors amounting to Kshs.10,173,695 which had no movement during the year under review. No explanation has been given as to why the long outstanding debts have not been paid. In the circumstances, it has not been possible to confirm whether the trade and other payables balance of Kshs.79,051,732 is fairly stated as at 30 June 2014.

Qualified Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the companies Act, Cap 486 of the Laws of Kenya.

Emphasis of matter

1. I draw your attention to Note 1 to the financial statements, the Company recorded a loss of Kshs.171,549,263 as at 30 June 2014 (2012/2013 Kshs.74,568,486) leading to a deficit revenue reserves of Kshs.1,303,768,072 as at 30 June 2014. The trend is a reflection of a weak financial management.

Consequently, if the downward trend in financial performance is not checked could lead to the insolvency of the company.

2. Note 13 to these financial statements and section 86 of the articles of association of the company which indicate that Kenya Railways Corporation own 51% of the shares in Numerical Machining Complex and the balance accounting for 49% is

owned by University of Nairobi. Such ownership is not as a result of direct purchase of shares but shares held in trust by these institutions on behalf of the Government through the National Treasury.

3. As disclosed in page 9 of the financial statements, the term of the Board of Directors was suspended vide a court judgement on 16 January 2014. This meant that there were no board committees' activities in the last half of the financial year thereby casting doubt on the effectiveness and efficiency with which the Company operated in the realization of its mission, strategic objectives and the provision of the oversight role during the period.
4. As disclosed in note 3 the Company received development grants amounting to Kshs.434,250,000 from the parent Ministry of industrialization and Enterprise Development out of which Kshs.78,000,000 was reallocated and utilised through the Company's recurrent account instead of the development account without any authority.

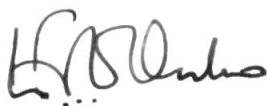
As a result, the planned and intended development performance target and objectives could not be attained.

My opinion is not qualified with respect to these above 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;
- 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 profit and loss and other comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 June 2015

Reports and Financial Statements
For the year ended June 30, 2014

STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2014

	NOTE	2014 KSHS	2013 KSHS
REVENUE			
Sales	2a	40,060,936	58,658,511
Cost of Sales	2b	(32,089,861)	(30,328,650)
Gross profit		<u>7,971,075</u>	<u>28,329,861</u>
Government Recurrent Grant	3	88,092,000	88,992,000
Deferred Income	9a	19,130,055	80,071,430
Other Operating Income	4	836,125	2,501,968
TOTAL REVENUE		<u>116,029,255</u>	<u>199,895,259</u>
OPERATING EXPENSES			
Administrative Expenses	5a	(106,747,548)	(83,197,444)
Directors Expenses	5c	(6,090,490)	(16,614,875)
Staff Costs	5b	(171,401,466)	(171,357,446)
Selling and Distribution	6	(3,339,013)	(3,293,980)
OPERATING PROFIT/(LOSS)		<u>(287,578,518)</u>	<u>(274,463,745)</u>
NET PROFIT /(LOSS)		<u><u>(171,549,263)</u></u>	<u><u>(74,568,486)</u></u>

Reports and Financial Statements
For the year ended June 30, 2014

STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	NOTES	2014 KSHS	2013 KSHS
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	125,118,221	47,174,846
Investment property	8	131,006,810	131,006,810
Total Non-Current Assets		256,125,031	178,181,656
Current Assets			
Inventories	10	138,831,260	123,767,769
Trade and other receivables	11a	93,488,368	67,374,130
Bank and Cash Balances	12	339,957,379	203,820,245
Total Current Assets		572,277,008	394,962,144
TOTAL ASSETS		828,402,038	573,143,800
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity		-	-
Revenue Reserves		(1,303,768,072)	(1,132,218,966)
Government Grant		1,214,024,646	1,214,024,646
Deferred income	9b	(89,743,426) 812,828,847	81,805,680 397,708,902
Total Capital and Reserves		723,085,421	479,514,582
Current Liabilities			
Tax payable	15	26,264,885	26,264,885
Trade and Other Payables	14	79,051,732	67,364,333
Total Current Liabilities		105,316,617	93,629,218
TOTAL EQUITY & LIABILITIES		828,402,038	573,143,800

The financial statements were approved by the Board on 28/5/15 2015 and signed on its behalf by:


Ag. Managing Director

Reports and Financial Statements
For the year ended June 30, 2014

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

	NOTE	Government grants kshs.	Revenue reserves (losses) as restated kshs.	Total kshs.
AT 1ST JULY 2012		1,214,024,646	(1,057,650,323)	156,374,323
NET PROFIT (LOSS) FOR THE YEAR	-		(74,568,486)	(74,568,486)
AS AT 30TH JUNE 2013		1,214,024,646	(1,132,218,809)	81,805,837
AT 1ST JULY 2013		1,214,024,646	(1,132,218,809)	81,805,837
NET PROFIT (LOSS) FOR THE YEAR	-		(171,549,263)	(171,549,263)
AS AT 30TH JUNE 2014		1,214,024,646	(1,303,768,072)	(89,743,426)

The government grant relates to initial seed money used to start the company.

Numerical Machining Complex Ltd

**Reports and Financial Statements
For the year ended June 30, 2014**

**STATEMENT OF CASH FLOWS
For the year ended 30 June 2014**

	Notes	2014 KSHS	2013 KSHS
OPERATING ACTIVITIES			
Profit (Loss) Before Taxation		(171,549,263)	(74,568,486)
Adjustments for:- Depreciation	7	19,426,458	9,397,463
		<u>(152,122,805)</u>	<u>(65,171,023)</u>
WORKING CAPITAL CHANGES			
Increase/ Decrease in Stocks		(15,063,345)	(27,658,469)
Increase/ Decrease in Debtors and Prepayments		(26,114,238)	3,275,698
Increase/ Decrease in Creditors and Accruals		11,687,399	(9,953,723)
Net Cash generated from Operating activities		<u>(181,612,989)</u>	<u>(99,507,518)</u>
INVESTING ACTIVITIES			
Purchase of fixed assets	7	(97,369,821)	(6,562,062)
Net Cash generated from investing activities		<u>(97,369,821)</u>	<u>(6,562,062)</u>
FINANCING ACTIVITIES			
Increase in long term liability capital grant	9b	415,119,945	307,928,570
Net Cash generated from financing activities		<u>415,119,945</u>	<u>307,928,570</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>136,137,135</u>	<u>201,858,990</u>
CASH AND CASH EQUIVALENTS AS AT 1ST JULY 2013		<u>203,820,245</u>	<u>1,961,254</u>
CASH AND CASH EQUIVALENTS AS AT 30TH JUNE 2014		<u>339,957,379</u>	<u>203,820,245</u>
		=====	=====

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. 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 entity.

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.

2. 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.

3. 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)

4. 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

5. 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

General provision

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

6. 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)

7. 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.

8. Capital Grants

Capital or development grants received are recognized as deferred income and applied over the useful lives of the assets financed by the grants.

9. 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.

10. 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.

11. 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.

12. Trade and other receivables

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

13. 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)

14. 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.

15. Comparative figures

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

16. 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, 2014.

17. 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.

**Reports and Financial Statements
For the year ended June 30, 2014**

NOTES TO THE FINANCIAL STATEMENTS

1. GOING CONCERN

As at 30th June 2014 the entity incurred a loss of 171 million (75 million 2013). The loss attributed to a decrease in gross income from 199,895,259 as at 30th June 2013 to 116,029,255 as at 30th June 2014 as well as total expenditure increase from 274,498,742 to 287,578,518 during the same period. As a result the revenue reserves have increased negatively from 1,132,218,809 to 1,303,768,072.

However, the current assets exceed the current liabilities by 466,960,391 (301,332,926- 2013). The entity also relies on government (who owns the entity) grants to support its operations. During the year the entity received 88,092,000 (88,992,000-2013).

The ability of the company to continue operation depends upon the continued support of the government and the measures being taken by the directors to return the company to profitability. In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

	2014	2013
	Kshs	Kshs
2a. SALES		
Manufacture of Machine tools(Lathe)	4,053,216	550,000
Manufacture of railway brake blocks	1,370,800	5,015,360
Manufacture & Sale of water pump	799,935	177,155
Casting of ferrous foundry products	39,600	-
Manufacture of general spares & Components	25,558,660	46,331,729
General Fabrication	1,898,227	3,761,809
Casting non-ferrous Foundry Products	1,276,836	-
Training & Sale of Engineering software	5,063,662	2,822,457
	40,060,936	58,658,511
	=====	=====
2b. COST OF SALES		
	2014	2013
	Kshs	Kshs
Opening stock	123,767,915	96,109,299
Add Purchases	47,153,207	57,987,266
Closing stock	(138,831,260)	(123,767,915)
TOTAL	32,089,861	30,328,650
	=====	=====
3. GRANTS FROM NATIONAL GOVERNMENT		
Current grants received	88,092,000	88,992,000
Capital grants received	434,250,000	388,000,000
	522,342,000	476,992,000
	=====	=====

**Reports and Financial Statements
For the year ended June 30, 2014**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. OTHER INCOME

Sale of tender documents	767,050	1,285,790
Sale of swarf	69,075	104,679
Decrease in provision for bad & doubtful debts	-	1,111,499
	<u>836,125</u>	<u>2,501,968</u>

5a. ADMINISTRATION COSTS

	2014 Kshs	2013 Kshs
Audit Fees	600,000	290,000
Bad debts	472,779	-
Bank Charges	569,176	423,247
Catering and Meals	2,798,079	2,380,102
Cleaning and Sanitation	359,117	347,946
Computer Expenses	2,349,347	1,226,298
Consulting Fees	6,134,478	369,272
Corporate Social Responsibility	100,000	-
Depreciation	19,426,458	9,397,463
Electricity	7,538,317	8,078,511
Foreign Exchange Loss	913,327	-
Foundry expenses	373,646	769,570
General Office Expenses	4,439,028	1,544,249
Health and Safety	1,495,831	131,113
Quality Management Systems (ISO)	164,606	1,116,393
Insurance	30,829,150	36,322,436
Legal Fees & land expenses	4,149,760	774,164
Maintenance of Buildings	2,570,558	172,951
Maintenance of Office Equipment	512,528	93,438
Maintenance to Machinery	5,114,867	3,375,066
Research and Development	2,197,310	238,715
Security services	5,172	26,897
Staff selection and recruitment	794,454	906,000
Stationery and Office Printing	905,572	918,668
Penalties & Interest	143,200	406,827
Telephone Postage and Courier	1,594,575	2,176,749
Tendering Expenses	1,338,031	-
Training	4,616,814	3,146,528
Travel & accommodation	2,285,760	6,643,958
Vehicle Running Expenses	994,959	1,913,587
Water	<u>960,651</u>	<u>7,295</u>
	<u>106,747,548</u>	<u>83,197,444</u>

Reports and Financial Statements
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5(b) STAFF COSTS

	2014	2013
	Kshs	Kshs
Final Dues	3,237,351	592,512
Gratuity	25,641,795	26,064,251
Salaries & Wages	141,677,126	144,511,545
Special duty Allowance	13,000	8,500
Staff Welfare	832,195	180,637
Final Dues	3,237,351	592,512
TOTAL	<u>171,401,466</u>	<u>171,357,446</u>

5(c) DIRECTORS EXPENSES

Committee, Honoraria & Board Expenses	6,090,490	16,614,875
TOTAL	<u>6,090,490</u>	<u>16,614,875</u>

6. SELLING AND DISTRIBUTION COSTS

Marketing and promotional expenses	3,339,013	3,293,980
TOTAL	<u>3,339,013</u>	<u>3,293,980</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 PROPERTY, PLANT AND EQUIPMENT

2013	Building	Foundry	Plant Machinery & Equipment	Foundry Power Separator	Vehicles	Furniture, Fittings & Fixtures	Computers & Office Equipment	Tools & Spares	Total
VALUATION / COST									
As at 1st July, 2012	45,371,342	313,454,082	309,535,470	4,291,084	16,690,661	5,686,579	62,123,592	65,370,984	822,523,795
Additions for the year		-	2,864,200			592,244	3,105,619		6,562,062
Disposals	-	-	-	-	-	-	-	-	
As at 30th June, 2013	45,371,342	313,454,082	312,399,669	4,291,084	16,690,661	6,278,823	65,229,210	65,370,984	829,085,855
DEPRECIATION									
As at 1st July, 2012	12,778,205	313,454,082	306,623,565	2,145,541	10,236,993	4,176,075	57,837,441	65,261,647	772,513,549
Charge for the year	907,427	-	795,561	536,386	2,633,591	395,102	4,105,955	23,427	9,397,449
Release on disposals	-	-	-	-	-	-	-	-	-
As at 30th June, 2013	13,685,632	313,454,082	307,419,126	2,681,927	12,870,584	4,571,177	61,943,396	65,285,074	781,910,999
NETBOOKVALUE									
As at 30th June, 2013	31,685,711	-	4,980,525	1,609,158	3,820,080	1,707,647	3,285,815	85,910	47,174,846

Reports and Financial Statements
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2014	Building	Foundry	Plant Machinery & Equipment	Foundry Power Separator	Vehicles	Furniture, Fittings & Fixtures	Computers & Office Equipment	Tools & Spares	Total
VALUATION / COST									
As at 1st July, 2013	45,371,342	313,454,082	312,399,669	4,291,084	16,690,661	6,278,823	65,229,210	65,370,984	829,085,855
Additions for the year	1,973,720	-	80,915,469	765,464	10,491,000	632,765	2,370,028	221,376	97,369,821
Disposals	-	-	-	-	-	-	-	-	
As at 30th June, 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
DEPRECIATION									
As at 1st July, 2013	13,685,632	313,454,082	307,419,126	2,681,927	12,870,584	4,571,177	61,943,396	65,285,074	781,910,995
Charge for the year	946,901	-	10,910,013	632,068	3,371,560	474,197	3,040,619	51,099	19,426,458
Release on disposals	-	-	-	-	-	-	-	-	-
As at 30th June, 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
NETBOOKVALUE									
As at 30th June, 2014	32,712,529	-	74,985,998	1,742,553	10,939,517	1,866,214	2,615,222	256,187	125,118,221

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. The Board of Directors was removed from office through an Industrial Court ruling before it deliberated on the matter.

Numerical Machining Complex Ltd

**Reports and Financial Statements
For the year ended June 30, 2014**

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>
	=====	=====

Reports and Financial Statements
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
8. INVESTMENT PROPERTY		
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>		
9a. DEFERRED INCOME		
<p>Capitalization of assets acquired from Capital Grants and recognition of costs of rehabilitation of Plant and Equipment from Capital Grant.</p>		
Item		
Buildings deferred 2008	5,298	5,298
Buildings deferred 2012	32,323	32,323
Buildings deferred 2014	39,474	
Computers & office equipment deferred 2011		
Computers & office equipment deferred 2012		
Computers & office equipment deferred 2013	2,250,609	4,105,955
Computers & office equipment deferred 2014	790,009	
Foundry raw materials deferred 2012		
Foundry raw materials deferred 2013		31,650,312
Furniture fittings deferred 2008	327	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	
ISO Expenditure 2013		614,126
Marketing & advertisement deferred 2013		2,447,622
Plant deferred 2008	161,806	161,806
Plant deferred 2009	234,198	234,198
Plant deferred 2010	41,550	41,550
Plant deferred 2013	358,025	358,025
Plant deferred 2014	10,114,434	
Power separator deferred 2009	536,385	536,385
Power separator deferred 2014	95,683	
CNC Materials 2013		26,087,336
Product development deferred 2013		238,715
R & M on Building deferred 2012		486,637
R & M Plant deferred 2013		3,375,066
Tools deferred 2008	3,900	3,900
Tools deferred 2010	19,528	19,528
Tools deferred 2014	27,672	
Travel & accommodation 2013		6,643,958
Vehicles deferred 2013	2,633,587	2,633,587
Vehicles deferred 2014	1,311,375	
TOTAL	19,130,055	80,071,430
	=====	=====

Numerical Machining Complex Ltd

**Reports and Financial Statements
For the year ended June 30, 2014**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.b	Deferred Income		
	Capital grant received in year 2012/2013	397,708,902	89,780,332
	Capital grant received 2013/2014	434,250,000	388,000,000
	Assets ,stocks and machine rehabilitation expenditure from capital grant	(19,130,055)	(80,071,430)
	TOTAL	812,828,847	397,708,902
		=====	=====

Reports and Financial Statements
For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Kshs	Kshs
10. INVENTORIES		
Computer Numerically Controlled machines (CNC) materials	55,932,216	65,372,706
Finished goods	38,564,369	12,224,785
Foundry raw materials	33,556,837	28,125,472
Inserts and tools	8,159,410	6,206,342
Stationery & General Stores	1,556,390	1,317,512
Work in progress	1,062,038	10,521,098
	138,831,260	123,767,915
	=====	=====

11. (a) TRADE AND OTHER RECEIVABLES

Accountable Advances	2,152,508	2,063,983
Athi River Land Sales Receivable	6,640,311	7,140,311
Car Loans	112,904	112,904
Deposits	25,963,457	5,250,544
Salary Advances	906,765	1,069,197
Trade Debtors (see note 13 b)	75,267,631	68,309,332
Value Added Tax	2,959,199	3,469,488
	114,002,775	87,415,759
Less Provision for Bad Debts	(20,514,407)	(20,041,629)
	93,488,368	67,374,130
	=====	=====

11. (b) STAFF RECEIVABLES

	2014	2013
	Kshs	Kshs
Gross staff loans and advances	906,765	1,069,197
Provision for impairment loss	(-)	(-)
	906,765	1,069,197
Less: Amounts due within one year	(906,765)	(1,069,197)
Amounts due after one year	-	-
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

	2014 KSH	2013 KSH
Cash at bank	339,957,379	203,820,245
Cash in hand	-	-
	<u>339,957,379</u>	<u>203,820,245</u>
	=====	=====

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

13. ORDINARY SHARE CAPITAL

Authorised:

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

	2014 KSH	2013 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

	2014 KSH	2013 KSH
Trade payables	14,889,894	11,839,744
Accrued expenses	4,695,427	1,997,567
Other payables	59,466,410	53,527,022
	<u>79,051,732</u>	<u>67,364,333</u>
	=====	=====

15 TAX PAYABLE

	2014 KSH	2013 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.

The management salaries and other allowances compensation for the year ended June 2014 totalled to 20,655,010.13 (16,284,906-2013).

17. CAPITAL COMMITMENTS

Amounts authorised and not contracted for	130,000,000	-
Amounts authorised and contracted for	-	434,250,000
	<u>130,000,000</u>	<u>434,250,000</u>
	=====	=====

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

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 2014 and 30 June 2013 is made up as follows:

	Fully Performing KSh.	Past due KSh.	Impaired KSh.	Total Sh
At 30 June 2014				
Cash and cash equivalents	339,957,379	-	-	339,957,379
Trade receivables	8,371,902	66,895,729	(20,514,407)	54,753,224
	<u>348,329,281</u>	<u>66,895,729</u>	<u>(20,514,407)</u>	<u>394,710,603</u>
	=====	=====	=====	=====
At 30 June 2013				
Cash and cash equivalents	203,820,245	-	-	203,820,245
Trade receivables	2,717,510	65,591,782	(20,041,629)	48,267,703
	<u>206,537,755</u>	<u>65,591,782</u>	<u>(20,041,629)</u>	<u>252,087,948</u>
	=====	=====	=====	=====

Reports and Financial Statements
For the year ended June 30, 2014

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.

	2014		2013	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year
	Sh	Sh	Sh	Sh
Financial liabilities				
Trade Payables	<u>2,614,101</u>	<u>12,275,793</u>	<u>1,146,416</u>	<u>10,693,328</u>
	<u>2,614,101</u>	<u>12,275,793</u>	<u>1,146,416</u>	<u>10,693,328</u>
Financial assets				
Trade Receivables	8,371,902	66,895,729	2,717,510	65,591,782
Cash and cash equivalents	<u>339,957,379</u>	-	<u>203,820,245</u>	-
	<u>348,329,281</u>	<u>66,895,729</u>	<u>206,537,755</u>	<u>65,591,782</u>
Net liquidity gap	<u>345,715,180</u>	<u>54,619,936</u>	<u>205,391,339</u>	<u>54,898,454</u>

(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.