

REPUBLIC OF KENYA



Roger Limal
By reader of majority
Hon. Aden Duale

KENYA NATIONAL AUDIT OFFICE

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REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
NUMERICAL MACHINING COMPLEX
LIMITED
FOR THE YEAR ENDED
30 JUNE 2013

Project 1

for members of project
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of

of

of

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on pages 7 to 18, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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 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 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(2) of the Public Audit Act, 2003 and submit the audit report in compliance 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

As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares under title LR. No.63767. 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. 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 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 and the revaluation surplus has not been incorporated in the financial statements for the period under review. No reason has been provided for this unsatisfactory state of affairs.

2. Trade and other Payables

The trade and other payables balance of Kshs.67,364,333 as at 30 June 2013 includes trade creditors amounting to Kshs.11,839,744, out of which Kshs.7,999,789 had no movement during the year under review. No explanation has been given as to why the long outstanding debts have not been paid. Accordingly, it has not been possible to confirm that trade and other payables balance of Kshs.67,364,333 is fairly stated as at 30 June 2013.

3. Tax Payable

Included in current liabilities balance of Kshs.93,629,218 as at 30 June 2013 is a tax liability of Kshs.26,264,885 which has been carried over from the year 1999. Management indicates that the tax arose from self assessment of interest income on consideration that it was a specified source of income and would attract further tax, besides the tax withheld at source. The Company in Note 7 to the financial

statements has disclosed that it had applied for a tax exemption from Kenya Revenue Authority. However, there was no evidence produced for audit verification confirming that the exemption was granted, besides the confirmation by management that the Company is currently tax compliant. The legality of the tax liability of Kshs.26,264,885 as at 30 June 2013 could therefore not be confirmed.

4. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.67,374,130 as at 30 June 2013, includes an amount of Kshs.7,140,311 owing from sale of the Company's parcels of land situated at Athi-River. This particular debt has been outstanding since 2001, while the Company continues to incur substantial costs in relation to land rent and rates in respect of the parcels. In view of the foregoing, the recoverability of Kshs.7,140,311 is doubtful. Further, included in the trade and other receivables balance of Kshs.67,374,130 are accountable advances and salary advances of Kshs.2,007,202 and Kshs. 269,702 respectively, relating to staff who left the Company and debts which have been outstanding for more than six (6) years amounting to Kshs.16,680,635. The recovery of this balance cannot however be confirmed.

Consequently, it has not been possible to confirm that trade and other receivables balance of Kshs.67,374,130 is fairly stated as at 30 June 2013.

5. Board Expenses

The Company incurred Board expenses of Kshs.16,614,875 during the year under review compared to Kshs.3,021,787 in 2011/2012. This resulted to an increase of Kshs.13,593,088 or 450% from the previous year's figure. Further, the company incurred an expenditure of Kshs.13,414,875 over and above the approved budgeted amount of Kshs.3,200,000. In addition, the Company paid Kshs.294,000 to an official of Inspectorate of State Corporations who attended Board sittings during the year in contravention of standing Government regulations.

The Company was therefore in breach of financial regulations.

6. Government Grants

During the year under review, the Company received Development grants totalling Kshs.387,999,999 from the Parent Ministry. Out of this amount, Kshs.282,916,361 (73%) was spent on recurrent expenses for which it was not intended. No approval was availed for audit verification to show that the Ministry authorized the reallocation of Kshs.282,916,361 from development account to recurrent account.

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 the Company as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the 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 comprehensive income are in agreement with the books of account.

Emphasis of Matter

1. I draw attention to note 9 to these financial statements and Section 86 of the Articles of Association of the Company which indicate that Kenya Railways Corporation owns 51% of the shares in the Company and the other 49% is owned by University of Nairobi. However, 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.

2. Financial Performance

During the year under review, the Company made a loss of Kshs.74,568,486 compared with a loss of Kshs.4,806,397 in 2011/2012 financial year. The loss is attributed to a decrease of gross income from Kshs.207,958,593 as at 30 June 2012 to Kshs.199,895,259 as at 30 June 2013, as well as total expenditure which increased from Kshs.212,764,990 to Kshs.274,463,745 during the same period. As a result, the revenue reserves increased from negative Kshs.1,057,650,480 in 2011/2012 to negative Kshs.1,132,218,966 as at 30 June 2013. This trend is a reflection of weak financial management which if not checked could lead to the company being insolvent.

My opinion is however not qualified with respect to these matters.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

24 June 2014

NUMERICAL MACHINING COMPLEX LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE, 2013

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NUMERICAL MACHINING COMPLEX LTD.

COMPANY INFORMATION

BOARD OF DIRECTORS

<u>POSITION</u>	<u>DIRECTORS NAME</u>	<u>REPRESENTATIVE</u>
Chairman Numerical Machining Complex Ltd	Prof. Nick G. Wanjohi, Chairman Numerical Machining Complex Ltd.	
Permanent Secretary, Treasury	Mr. Joseph K. Kinyua, CBS	Mr. Njoroge Muhu
Permanent Secretary, Ministry of Higher Education	Prof. Crispus Kiamba CBS	Mr. Muaa Mutinda
Permanent Secretary, Ministry of Transport	Dr. Eng. Cyrus Njiru CBS	Mr. Moses Maina
Ministry of Industrialization	Dr.(Eng) Karanja Kibicho CBS	Eng. John Mosonik
Private Sector	Mr. Abdi Muhamood Hassan Ms. Sarah Mbwaya Mr. Andrew C. Mitei Eng. Bernard Ngore Ms. Joyce K. Mulinge Mr. Joseph E. T. Janga	

Ag. Managing Director,
Numerical Machining Complex Ltd. Mr. Gordon Onjore

NOTE

The board members from Private Sector were relieved off their directorship positions by a court ruling in February 2014 following an Industrial Court Petition No. 35 of 2012 filed by former Managing Director, Eng. George S. Onyango.

INCORPORATION AND REGISTRATION

The company is registered in Kenya under the Companies Act. (Cap. 486)

DOMICILE

Numerical Machining Complex Limited. is Domicile in Kenya.

NUMERICAL MACHINING COMPLEX LTD.

COMPANY INFORMATION

REGISTERED OFFICE

Workshops Road
P.O.Box 70660-00400
Nairobi

BANKERS

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

AUDITORS

Auditor General
Kenya National Audit Office
P.O. Box 30084-00100
Nairobi

BOARD COMMITTEES

FINANCE AND ADMINISTRATION COMMITTEE

CHAIRMAN

Mr. Andrew Mitei

MEMBERS

Mr. Humphrey
Njoroge Muhu

Mr. Joseph E.T Janga

TECHNICAL COMMITTEE

CHAIRMAN

Mr. Joseph E.T Janga

MEMBERS

Eng. Benard Ngore

Eng. John Mosonik

NUMERICAL MACHINING COMPLEX LTD.

AUDIT COMMITTEE

CHAIRPERSON

Mrs. Sarah Mbwaya

MEMBERS

Prof. Crispus Kiamba

Ms. Joyce K. Mulinge

Mr. Humphrey Muhu

HR COMMITTEE

CHAIRPERSON

Mr. Abdi Mohamood Hassan

MEMBERS

Ms. Joyce K. Mulinge

Mr. Moses Maina

SHARE HOLDING

The company is jointly owned by the Kenya Railways Corporation (51%) and the University of Nairobi (49%) in trust of the Government.

ACTIVITIES

Commercial production of steel, engineering design and development of machinery and components.

NUMERICAL MACHINING COMPLEX LTD.

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Company's Act Chapter 486 of the laws of Kenya require the directors to prepare financial statements for each financial year which include a balance sheet showing in detail the assets and liabilities of the company, a statement of income and expenditure and such other statements that the directors may deem necessary. It also requires the directors to ensure the company keeps proper books of accounts and other books and records in relation to the company and all undertakings, funds investment activities and property of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and its operating results.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least 12 months from the date of this statement.



Amb. Joseph Kiplagat
DIRECTOR



Mr. Gordon Onjore
Ag. MANAGING DIRECTOR

NUMERICAL MACHINING COMPLEX LTD.

VISION, MISSION AND VALUES

VISION

To be the regional market leader in steel production, design, development and production of world class quality machinery and components.

MISSION

To produce steel, design process and manufacture high integrity machinery and components that exceeds customer requirements through employing appropriate state of the art technology and highly skilled manpower.

VALUES

Our core values direct our business strategy and are the pillars of our culture. They guide our people think, act and feel.

1. Customer focus
2. Innovativeness
3. Integrity
4. Professionalism
5. Teamwork
6. Socially responsive
7. Environmental responsible

NUMERICAL MACHINING COMPLEX

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE, 2013

	NOTES	<u>2013</u> <u>KSHS</u>	<u>2012</u> <u>KSHS</u>
<u>SALES</u>	1 (e) (i)	58,658,511	74,469,548
Cost of Sales	13	<u>(30,328,650)</u>	<u>(53,609,089)</u>
Gross profit		28,329,861	20,860,459
Government Recurrent Grant	1 (e) (ii)	88,992,000	64,964,700
Deferred Income	2 (ai)	80,071,430	121,456,683
Other Operating Income	2 (b)	2,501,968	676,751
		<hr/>	<hr/>
<u>GROSS INCOME</u>		199,895,259	207,958,593
<u>Operating Expenses</u>			
Directors Expenses	2 (c)	(16,614,875)	(3,021,787)
Administrative Expenses	2 (di)	(46,213,045.00)	(55,554,011)
Staff Costs	2 (dii)	(207,087,370)	(132,712,812)
Selling and Distribution	2 (e)	(3,532,695)	(21,137,007)
Other Operating Expenses	2 (f)	<u>(1,015,760)</u>	<u>(339,372)</u>
		(274,463,745)	(212,764,990)
		<hr/>	<hr/>
Net Profit (loss)		<u><u>(74,568,486)</u></u>	<u><u>(4,806,397)</u></u>

NUMERICAL MACHINING COMPLEX LTD.



STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE, 2013

	NOTES	<u>2013</u> <u>KSHS</u>	<u>2012</u> <u>KSHS</u>
<u>ASSETS</u>			
<u>PROPERTY PLANT AND EQUIPMENT</u>	4	<u>47,174,846</u>	<u>50,010,246</u>
<u>INVESTMENT IN PROPERTY</u>	3	<u>131,006,810</u>	<u>131,006,810</u>
<u>CURRENT ASSETS</u>			
Stocks	5	123,767,769	96,109,299
Trade and other receivables	6	67,374,130	70,649,828
Bank and Cash Equivalents	11	<u>203,820,245</u>	<u>1,961,252</u>
		<u>394,962,144</u>	<u>168,720,379</u>
<u>TOTAL ASSETS</u>		<u>573,143,800</u>	<u>349,737,435</u>
<u>EQUITIES & LIABILITIES:</u>			
Equity		-	-
Revenue Reserves	12	(1,132,218,966)	(1,057,650,480)
Government Grant	12	<u>1,214,024,646</u>	<u>1,214,024,646</u>
		81,805,680	156,374,166
Deferred income	2a ii	<u>397,708,902</u>	<u>89,780,328</u>
Total		<u>479,514,582</u>	<u>246,154,494</u>
<u>CURRENT LIABILITIES</u>			
Tax payable	7	26,264,885	26,264,885
Trade and Other Payables	8	<u>67,364,333</u>	<u>77,318,056</u>
		<u>93,629,218</u>	<u>103,582,941</u>
<u>TOTAL EQUITY & LIABILITIES</u>		<u>573,143,800</u>	<u>349,737,435</u>

The financial statements of pages 7 to 17 were approved by the Board of Directors on

..... and were given on its behalf by:-


 _____))

 _____))
 _____))

NUMERICAL MACHINING COMPLEX LTD.

STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED JUNE, 2013

		GOVERNMENT GRANTS KSHS.	REVENUE RESERVES (LOSSES) AS RESTATED KSHS.	TOTAL KSHS.
	NOTE			
AT 1ST JULY 2011		1,214,024,646	(1,052,844,083)	161,180,563
NET PROFIT (LOSS) FOR THE YEAR		-	(4,806,397)	(4,806,397)
BALANCE RESTATED AS AT 30TH JUNE 2012		1,214,024,646	(1,057,650,480)	156,374,166
AT 1ST JULY 2012	12	1,214,024,646	(1,057,650,480)	156,374,166
NET PROFIT (LOSS) FOR THE YEAR		-	(74,568,486)	(74,568,486)
AS AT 30TH JUNE 2013		1,214,024,646	(1,132,218,966)	81,805,680

Included in the revenue reserves is a loss on capital revaluation reserve of K.shs. 367,960,000 brought forward from the revaluation downwards on the investment in property -Athi River Land by the Department of Land Development, University of Nairobi on 18th May, 1998. The loss relates to the original parcel of land of 703.59 Hectares

The land had been carried at estimated values when NMC took over the operations of its predecessor and the values turned out to be unrealistic upon the professional valuation, resulting in the substantial adjustment downwards.

The survey of Kenya under the Ministry of Lands Housing development has been engaged to carry out a survey of Nmc parcel of land and establish the correct position of remaining piece of land after sale of 500 acres in the year 2001-2003.

Revenue Losses are losses accumulated from trading activities and research during the Kenya Car Project.

The loss of Ksh 74 million is due to significant drop in revenue arising from unrealised sale of lathe machines.

NUMERICAL MACHINING COMPLEX LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE, 2013

	<u>Notes</u>	<u>2013</u> <u>KSHS</u>	<u>2012</u> <u>KSHS</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>			
Profit (Loss) Before Taxation		(74,568,486)	(4,806,397)
Adjustments for:-			
Depreciation	4	9,397,463	8,137,435
		<u>(65,171,023)</u>	<u>3,331,039</u>
 <u>WORKING CAPITAL CHANGES</u>			
Increase/ Decrease in Stocks		(27,658,469)	(50,140,247)
Increase/ Decrease in Debtors and Prepayments		3,275,698	14,508,962
Increase/ Decrease in Creditors and Accruals		(9,953,723)	13,693,288
Cash flow from Operating activities		<u>(99,507,518)</u>	<u>(18,606,959)</u>
 <u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Purchase of fixed assets	4	(6,562,062)	(11,916,154)
Cash flow from investing activities		<u>(6,562,062)</u>	<u>(11,916,154)</u>
 <u>CASH FLOW FROM FINANCING ACTIVITIES</u>			
Increase in longterm liability capital grant	2a ii	307,928,571	28,543,317
Cash flow from financing activities		<u>307,928,571</u>	<u>28,543,317</u>
NET CASH FLOW		201,858,991	(1,979,797)
Cash and Cash Equivalents as at 1st July 2012		1,961,254	3,941,051
Cash and Cash Equivalents as at 30th June 2013		203,820,245	1,961,254

NUMERICAL MACHINING COMPLEX LTD.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE, 2013

1 ACCOUNTING POLICIES

a) Accounting Basis

The company prepares its accounts under the historical cost convention, modified to include revaluation of certain assets.

b) Depreciation

Depreciation is calculated to write off the cost or valuation of the fixed assets in equal annual installments 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%

Revalued assets are depreciated over their estimated useful lives

c) 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 provisions

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

d) Income Recognition

Income is recognized on accrual basis

e) (i) Sales

These are sales from services rendered in design and manufacture of industrial and automotive parts

(ii) Government Recurrent grant

Revenue grants are recognized as income in the year they are received and matched with the expenses for the financial year.

f) Stock Valuation

Inventory is valued at lower of Historical Cost or Net Realized Value. Historical Cost is by Weighted Average Method.

g) Capital Grants

Capital or development grants are recognized as deferred income and applied over the useful lives of the assets financed by the grants. During the year, 2012/2013, NMC received Kshs. 388 million Capital grant from the Government.

NUMERICAL MACHINING COMPLEX LIMITED

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 30TH JUNE, 2013

(h) **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

(i) **Dividends:**

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

(j) **Employee benefits**

of the basic salary. The unpaid gratuity is held as a current liability to the extent that it remains unpaid. Annual payments are made to avoid accumulation of the liability.

2 (ai) **Deferred income**

Capitalization of assets acquired from Capital Grants and recognition of costs of rehabilitation of Plant and Equipment from Capital Grant.

<u>Item</u>	<u>2013</u> <u>Kshs.</u>	<u>2012</u> <u>Kshs.</u>
Buildings deferred 2008	5,298	5,298
Buildings deferred 2012	32,323	32,323
Computers & office equipment deferred 2011		2,062,579
Computers & office equipment deferred 2012		1,215,403
Computers & office equipment deferred 2013	4,105,955	
Foundry raw materials deferred 2012		42,638,243
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	
ISO Expenditure 2012		601,264
ISO Expenditure 2013	614,126	
Marketing & advertisement deferred 2012		5,430,426
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	
Power separator deferred 2009	536,385	536,385
CNC Materials 2012		58,746,241
CNC Materials 2013	26,087,336	
Product development deferred 2012		406,484
Product development deferred 2013	238,715	
R & M on Building deferred 2012	486,637	486,637
R & M on Building deferred 2013		
R & M Plant deferred 2012		2,276,615
R & M Plant deferred 2013	3,375,066	
Tools deferred 2008	3,900	3,900
Tools deferred 2010	19,528	19,528
Travel & accommodation 2012		3,603,144
Travel & accommodation 2013	6,643,958	
Vehicles deferred 2012		2,633,587
Vehicles deferred 2013	2,633,587	
	<u>80,071,430</u>	<u>121,456,683</u>

NUMERICAL MACHINING COMPLEX LIMITED

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 30TH JUNE, 2013

2 (iii) **Deferred Income**

	Kshs.	Kshs.
Capital grant received in year 2011/2012	89,780,332	61,237,015
Capital grant received 2012/2013	388,000,000	150,000,000
Assets ,stocks and machine rehabilitation expenditure from capital grant	(80,071,430)	(121,456,683)
TOTAL	397,708,902	89,780,332

2 (b) **Other operating income**

	Kshs.	Kshs.
Income from sale of suppliers prequalification documents in the months of July,October,November 2012 & June 2013.	1,285,790	543,000
Income from sale of scrap materials and disposal of obsolete items.	104,679	133,751
During the year 2012-2013 there was a decrease in provision for bad and doubtful debts	1,111,499	-
	2,501,968	676,751

NUMERICAL MACHINING COMPLEX LIMITED
NOTES TO THE ACCOUNTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE, 2013

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
2 (c) <u>DIRECTORS EXPENSES</u>	16,614,875	3,021,787

The directors fees and expenses increased to Kshs. 16,614,875 during this financial year from Kshs 3,021,787 reported in the year 2011/12. During this financial year, there were more meetings than the previous year.

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
2 (di) <u>ADMINISTRATIVE EXPENSES</u>		
Audit Fees	290,000	250,000
Catering and Meals	2,380,102	2,220,364
Cleaning and Sanitation	347,946	428,892
Computer Expenses	1,226,298	1,268,270
Consulting Fees	369,272	1,825,227
Donations	-	304,450
Depreciation	9,397,462.84	8,137,435
Electricity	8,078,511	12,579,569
Foundry expenses	769,570	1,188,718
General Office Expenses	1,544,249	5,338,686
Health and Safety	131,113	1,046,997
Quality Management Systems (ISO)	1,116,393	813,389
Insurance		924,018
Legal Fees & land expenses	774,164	148,095
Licenses	-	-
Maintenance of Buildings	172,951	486,639
Maintenance of Office Equipment	93,438	238,457
Maintenance to Machinery	3,375,066	3,034,351
Rent & Rates	-	-
Security services	26,897	1,685,107
Staff selection and recruitment	906,000	-
Stationery and Office Printing	918,668	1,037,089
Strategic Planning	-	814,300
Penalties & Interest	406,827	-
Telephone Postage and Courier	2,176,749	2,378,728
Training	3,146,528	1,471,617
Travel & accommodation	6,643,958	4,317,602
Vehicle Running Expenses	1,913,587	3,590,184
Water	7,295	25,826
	<u>46,213,045</u>	<u>55,554,011</u>

The overall administrative expenditure declined as compared to the previous financial year of 2011/2012. The cost of electricity declined occasioned by reduced activity. However, the company spent more on training of staff on performance management, foundry technology and strategic planning for directors and overseas travel to India and Russia for the Directors and the MD on the steel mill project.

	<u>2013</u>	<u>2012</u>
2 (dii) <u>STAFF COSTS</u>	KSHS	KSHS
Gratuity	26,064,251	14,445,280
Medical Expenses	36,322,436	14,041,634
Salaries & Wages	144,511,545	104,052,104
Special duty Allowance	8,500	33,982
Staff Welfare	180,637	139,812
	<u>207,087,370</u>	<u>132,712,812</u>

There was an increase in the staff cost occasioned by the full effect of the increment in salaries that was implemented in the financial year 2011/2012.

	<u>2013</u>	<u>2012</u>
2 (e) <u>SELLING AND DISTRIBUTION</u>	KSHS	KSHS
Sales and Marketing	3,293,980	5,443,906
Research and Development	238,715	569,350
Bad debts	-	15,123,751
	<u>3,532,695</u>	<u>21,137,007</u>

During the year there was a decline in provision of bad debts as compared to the year 2011/2012. This was occasioned by payment of some old debtors.

	<u>2013</u>	<u>2012</u>
2 (f) <u>OTHER OPERATING EXPENSES</u>	KSHS	KSHS
Bank Charges	423,247	305,896
Final Dues	592,512	33,476
	<u>1,015,760</u>	<u>339,372</u>

There were staff who retired during the year which brought about an increase in final dues.

Grand Total	<u><u>274,463,745</u></u>	<u><u>212,764,990</u></u>
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3 **INVESTMENT IN PROPERTY**

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.

NUMERICAL MACHINING COMPLEX LIMITED

4. NOTES TO THE ACCOUNTS CONTINUED

PROPERTY PLANT & EQUIPMENT DEPRECIATION SCHEDULE

FOR THE YEAR 30TH JUNE, 2013

<u>VALUATION / COST</u>	<u>BUILDING</u> KSHS	<u>FOUNDRY</u> KSHS	<u>PLANT</u> <u>MACHINERY &</u> <u>EQUIPMENT</u> KSHS	<u>FOUNDRY</u> <u>POWER</u> <u>SEPARATOR</u> KSHS	<u>FURNITURE,</u> <u>FITTINGS &</u> <u>FIXTURES</u> KSHS	<u>COMPUTERS &</u> <u>OFFICE</u> <u>EQUIPMENT</u> KSHS	<u>TOOLS &</u> <u>SPARES</u> KSHS	<u>TOTAL</u> KSHS
As at 1st July, 2012	45,371,343.22	313,454,082	309,535,470	4,291,084	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	45,371,343	313,454,082	312,399,670	4,291,084	6,278,823	65,229,211	65,370,984	829,085,857
DEPRECIATION								
* As at 1st July, 2012	12,778,205	313,454,082	306,623,565	2,145,541	4,176,075	57,837,441	65,261,647	772,513,549
Charge for the year	907,427	-	795,579	536,385	395,102	4,105,955	23,427	9,397,463
Release on disposals	-	-	-	-	-	-	-	-
As at 30th June, 2013	13,685,632	313,454,082	307,419,144	2,681,926	4,571,177	61,943,396	65,285,074	781,911,011
NET BOOK VALUE								
As at 30th June, 2013	31,685,711	-	4,980,525	1,609,158	1,707,647	3,285,815	85,910	47,174,846
As at 1st July, 2012	32,593,138	-	2,911,905	2,145,543	1,510,504	4,286,150	109,337	50,010,246

NUMERICAL MACHINING COMPLEX LIMITED

4. NOTES TO THE ACCOUNTS CONTINUED

PROPERTY PLANT & EQUIPMENT DEPRECIATION SCHEDULE

FOR THE YEAR 30TH JUNE, 2013

i). Foundry Equipment, Plant and Machinery are recorded at historical costs and have been fully depreciated over their estimated lives. Additions on Plant ,Machinery & Equipment are still subjected to depreciation.

ii). Included in this schedule are vehicles,furniture & fittings, computers and tools & spares which are fully depreciated but are still in use and not yet revalued.

iii). Numerical Machining Complex has engaged the Ministry of Public works to value buildings, plant machinery, furniture fixtures and fittings. Included also at historical costs are the idle assets(motor vehicles and old furniture) which have been fully depreciated . These items have been identified for disposal within the next Financial year.

NUMERICAL MACHINING COMPLEX LTD.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 30TH JUNE, 2013

5 STOCKS

Stocks comprise of the following categories

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
Computer Numerically Controlled machines raw materials	66,690,218	10,630,501
Finished goods	12,224,785	6,706,288
Foundry raw materials	28,125,472	35,762,623
Inserts and tools	6,206,342	7,878,208
Work in progress	10,521,098	35,131,680
	<u>123,767,915</u>	<u>96,109,299</u>

The complex purchased stocks of raw materials to service the order of lathe machines to the ministry of industrialisation. The order was not completed and therefore the items are held in stocks of raw materials at the CNC workshop and the foundry workshop.

6 TRADE AND OTHER RECEIVABLES

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
Accountable Advances	2,063,983	3,342,188
Athi River Land Sales Receivable	7,140,311	7,720,161
Car Loans	112,904	112,904
Deposits	5,250,544	2,878,162
Salary Advances	1,069,197	949,480
Trade Debtors	68,309,332	74,884,286
Value Added Tax	3,469,488	1,915,777
	<u>87,415,759</u>	<u>91,802,956</u>
Less Provision for Bad Debts	<u>(20,041,629)</u>	<u>(21,153,128)</u>
	<u>67,374,130</u>	<u>70,649,828</u>

7 TAX PAYABLE

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
Balance brought forward	<u>26,264,885</u>	<u>26,264,885</u>

A Tax exemption has been lodged with the Kenya Government Income Tax Department

8 TRADE AND OTHER PAYABLES

	<u>2013</u>	<u>2012</u>
	<u>KSHS</u>	<u>KSHS</u>
Accrued expenses	1,997,567	1,707,567
Accrued Gratuity	30,697,551	26,802,274
Creditors -others	5,207,926	5,982,826
Retrenchment dues payable	135,047	135,047
Salary deductions	14,486,498	16,569,476
Trade Creditors	11,839,744	23,120,866
University of Nairobi- Loan	3,000,000	3,000,000
	<u>67,364,333</u>	<u>77,318,056</u>

Accrued expenses includes Directors and Audit fees.



NUMERICAL MACHINING COMPLEX LTD.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 30TH JUNE, 2013

9 SHARE CAPITAL

Authorised: 75,000,000 ordinary shares of K.Shs. 10 each total value 750,000,000 not yet issued

10 CURRENCY

The accounts are presented in Kenya Shillings (Kshs.)

11 BANK AND CASH EQUIVALENT

	<u>2013</u>	<u>2012</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Bank 1 Balance	98,736,607	954,065
Bank 2 Balance	105,083,638	1,007,187
TOTAL	<u>203,820,245</u>	<u>3,941,051</u>

12 Government grants & reserves

	<u>Kshs.</u>	<u>Kshs.</u>
Govern grants	1,214,024,646	1,214,024,646
Revenue Reserves (Losses)	(1,132,218,966)	(1,072,667,831)
TOTAL	<u>81,805,680</u>	<u>141,356,815</u>

13 Cost of Sales.

	<u>Kshs.</u>	<u>Kshs.</u>
Opening stock	96,109,299	45,969,052
Add Purchases	57,987,266	103,749,336
Closing stock	(123,767,915)	(96,109,299)
TOTAL	<u>30,328,650</u>	<u>40,360,803</u>

