REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF NUMERICAL MACHINING COMPLEX LIMITED

FOR THE YEAR ENDED 30 JUNE 2017

NUMERICAL MACHINING COMPLEX LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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

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I. 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.

Directors

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

Name	Position	Appointed Date
Gen(Rtd) Jeremiah M. Kianga	Chairman	Appointed on 27th April 2015
Ms Christine Mbando	Ag. MD	Appointed on 1st October 2015
Prof.Gideon K. Misoi	Member	Appointed on 27th April 2015
Mr. Phillip Nyingi	Alternate to Permanent Secretary, Chief of Staff and Head of Public Service	Appointed on 3rd September 2015
Mr. Jackson N Kinyanjui	Alternate to Dr. Kamau Thugge, EBS Permanent Secretary, National Treasury	Appointed on 14th October 2015
Eng. Francis Gitau	Alternate to Eng. John K. Mosonik, EBS. PS Ministry of Transport and Infrastructure.	Appointed on 26th August 2015
Ms Janet Mugo	Alternate to Amb. Kirimi P Kaberia, PS Ministry of Defence.	Appointed on 6th April 2016
Mr.James Nyambune	Alternate to Prof. Colleta Suda EBS in the Ministry of Education, Science and Technology	Appointed on 7th August 2015
Mr.Erastus Kimuri	Alternate to Mr. Patrick N. Mwangi, Permanent Secretary, Ministry of Industry, Investment and Trade	Appointed on 11th August 2015-Left on 31th August 2016.
Amb Dr. Joseph K. Kiplagat	Alternate to Mr. Patrick N. Mwangi, Permanent Secretary, Ministry of Industry, Investment and Trade	Appointed on 1st September 2016.
Eng.Benedict Kimau	Alternate to the MD, Kenya Railways Corporation.	Appointed on 3rd September 2015
Eng.Stanley Kaguongo	Independent Member	Appointed on 17th April 2015
Prof. Angelina Nduku Kioko	Independent Member	Appointed on 17th April 2015
Dr.Kamau Gachigi	Independent Member	Appointed on 27th April 2015
Eng.James Bett	Independent Member	Appointed on 27th April 2015

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

Corporate Headquarters
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Nairobi, Kenya

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

Principal Legal Advisers

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

II. THE BOARD OF DIRECTORS

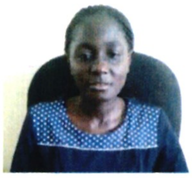
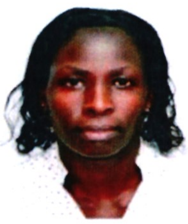
Gen.(Rtd) Jeremiah M. Kianga EGH,CBS(66 years) *Chairman* He joined the Board on 27th April 2015.A former Chief of Defence Forces and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd.	
Ms Christine Mbando (40 years) *Ag. Managing Director* She holds a BCom(HR) from Catholic University 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.	
Prof. Gideon K. Misoi (64 years) *Member* He joined the Board on 27th 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.	
Mr. Phillip Nyingi (50 years) *Member* Appointed as an alternate to Permanent Secretary, Chief of Staff and Head of Public Service on 3rd 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.	
Mr. Jackson Njau Kinyanjui (62 years) *Member* 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.	
Eng. Francis Gitau (52 Years) *Member* Alternate to Eng. John K. Mosonik, EBS. PS Ministry of Transport and Infrastructure.He comes with 28 years of experience.He is a registered Consultant Engineer with the Enginners Board of Kenya, Holds a Bsc Civil Engineering from the University of Nairobi, an Executive Masters of Business Administration from JKUAT and is currently undertaking an Msc (Transportation) degree from the University of Nairobi. He is the Chairman of the Mechanical Transport Fund and serves as the Infrastructure Secretary in the State Department of Infrastructure.	

Ms. Janet N. Mugo (60 years) *Member* Appointed as Alternate to Amb. Kirimi P Kaberia, PS Ministry of Defence on 6th 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 & Substance Abuse and Integrity Policies.	
Mr. James Nyambune (52 years) *Member* He was appointed to the Board on 7th 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.	
Mr. Erustus Kimuri (61 years) *Member* He was appointed to the Board on 11th August 2015 as an alternate to Mr. Patrick N. Mwangi, 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.	
Eng. Benedict Kimau (60 years) *Member* He was appointed to the Board on 3rd 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 & maintenance and also special skills in safety management.	
Eng.Stanley Kaguongo (56 Years) *Member* He was appointed to the Board on 17th 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.	

Dr. Angelina Nduku Kioko (59 Years) *Member* She was appointed to the Board on 17th 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).	
Dr Kamau Gachigi (50 Years) *Member* He was appointed to the Board on 27th 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.	
Eng. James Bett (59 Years) *Member* He was appointed to the Board on 27th 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.	

III. MANAGEMENT TEAM

 Ms Christine Mbando	Ms Christine Mbando (40 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.
 Eng. Michael Thubi	Eng. Michael Thubi, (54 yrs) is the Research & 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.

 Mr. Zacharia Magondu	Mr Zacharia Magondu (37yrs) is the Production Manager and holds *Bsc. Manufacturing Engineering (Egerton University)* He has 7 years of experience in production engineering.
 Ms Lilian Owiti	Ms Lilian Owiti (38 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 *(KIM)* and executive certificate HRM from *IHRM.*
 CPA Ferdinand Ododa.	CPA Ferdinand Ododa (31yrs) is the In-charge Finance and holds a *B Com (Finance)-Kenyatta University* and is a CPA(K). He has 9 years experience as a finance and accounting professional and a member of ICPAK.
 Ms Zipporah Samoei	Ms Zipporah Samoei (39 yrs) is currently in charge of Sales & Marketing. She has 10 years' experience as a Marketing professional. She is a Diploma holder of Marketing by the Chartered Institute of Marketing. She is an Associate Member CIM.
 Mr Walter Nyamongo	Mr Walter Nyamongo (42yrs) is the Ag.Procurement Manager and holds an *Msc Procument & Logistics (JKUAT) and a Bsc in Tourism & Wildlife Management (Moi University).* He has 3 years' experience as the Ag. Head of Procurement at NMC and a further 3 years' experience as a head of Finance and operations in the private sector.

IV. CHAIRMAN`S REPORT

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

Company performance

NMC reduced its operating loss by 81% during the financial year 2016/2017, a clear indication that the company's turnaround is taking shape. Results for the year were as detailed below:

- Significant operating improvements. Reduction on machine breakdowns.
- Revenue grew by 3 percent to Kshs 53 million, despite the high cost of production.
- Operating costs reduced by 4 per cent
- Gross profit improved from Kshs 3.4 million to kshs 11.3 million
- The loss before tax reduced by 87 per cent from Kshs 139 million to Kshs 18 million.

Future prospects

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

Appreciation

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

for

Gen(Rtd) Jeremiah M. Kianga

Chairman

V. REPORT OF THE MANAGING DIRECTOR

I have the pleasure to present the annual report and accounts of Numerical Machining Complex ltd for the year ended 30 June 2017.

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

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

I am pleased to report that the year 2016/2017 was a year that NMC received a grant of Kshs 165.9 million for recurrent expenditure and Kshs 25 million to finance the development expenditure.

- The government support for both development and recurrent grant during this period was an increase of 3% from Kshs 186 million received in the year 2015/2016 to Kshs 191 million.
- Operating costs reduced by 4 per cent mainly through cost cutting initiatives undertaken by management.
- Gross profit improved from Kshs 3.4 million to kshs 11.3 million
- The loss before tax reduced by 87 per cent from Kshs 139 million to Kshs 18 million.

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

CONCLUSION

I would like to take this opportunity to thank the Government of Kenya for its support throughout the year under review and also appeal for more support ,especially for 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,staff of NMC for their continued co-operation and support in the difficult challenges of production and administration of NMC.I look forward for increased co-operation and enthusiasm for rapid growth of NMC Ltd.

Ms Christine Mbando
Ag.Managing Director

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which corporations are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.
At Numerical Machining Complex Ltd, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the corporations' activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. The Board is responsible for the governance of the entity and conducts the business and operations of the entity with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The composition of the Board is set out on page (iv-vi). The Board of Directors of the entity comprises of the Chairman who is appointed by the President, the CEO is appointed by the PS Ministry of Industrialization on recommendation by the Board. The Board has varied and extensive skills in the areas of business engineering management. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give reasonable assurance against material misstatements.
The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the MD and plays a lead role in consensus building between the Board members, the MD and senior management. The Board has delegated the authority for day-to-day management to the MD. It however retains the overall responsibility for decisions with regard to finances and operations of the entity.
The Board meets regularly and has a formal schedule of matters reserved to it. Board papers are generally circulated well in advance of the Board meetings by the Director Legal Services. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The key function of the Board is to guide and control the performance and management of the affairs of the entity.

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

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

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairmen of the Committees reporting to it. This consist of the audit committee, human resource committee, finance & Administration committee,technical committee and land ad-hoc committee.
During the year, the company held 7 board meetings as per Mwongozo Code of Conduct to discuss Preparation of key human resource documents;Strategic plan 2017-2021;Vetting of the company's performance through the Performance contract, marketing,finance and production reports; Assessing how to improve revenues of the company;Downsizing to improve on profitability;Deliberations on current impending liabilities that have fallen due; Audit reports from OAG.

Composition of the Board and attendance

Name of the Director	Attendance
1. Gen(Rtd) Jeremiah M. Kianga	7
2. Ms Christine Mbando	7
3. Prof.Gideon K. Misoi	6
4. Mr. Phillip Nyingi	-
5. Mr. Jackson N Kinyanjui	-
6. Eng. Francis Gitau	3
7. Ms Janet Mugo	-
8. Mr.James Nyambune	7
9. Mr.Erastus Kimuri	3
10. Eng.Benedict Kimau	6
11. Eng.Stanley Kaguongo	7
12. Prof. Angelina Nduku Kioko	7
13. Dr.Kamau Gachigi	6
14. Eng.James Bett	7
15. Amb.Joseph Kiplangat	2
16. Mr. Julius Korir	1

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

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

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

The Audit Committee held 3 meetings as shown below:

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

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

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

The Committee invites in-charge Human Resource and Administration to its meetings.The HR Committee held 9 meetings during the year under review as shown in the below:

Name	Attendance
Prof.Angelina Kioko – Chairperson	9
Prof.Gideon K. Misoi	6
Mr. Phillip Nyingi	2
Ms. Janet Mugo	-
Eng. Benedict Kimau (by invitation)	3
Mr. James Nyambune (by invitation)	5

Finance & Technical Committee

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

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

The Finance & Technical Committee held 5 meetings during the year under review as shown below:

Name	Attendance
Dr Kamau Gachigi – Chairman(Finance)	5
Eng.James Bett – Chairman(Technical)	5
Mr.Jackson Kinyanjui	2
Amb.Joseph Kiplangat	3
Eng.Francis Gitau	2
Mr.James O.Nyambune	5
Mr.Erastas Kimuri	1
Prof.Gideon K. Misoi (by invitation)	1
Gen(Rtd) Jeremiah M. Kianga (by invitation)	1

Land Ad-Hoc Committee

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

The Land Ad-Hoc Committee held 5 meetings during the year under review as shown below:

Name	Attendance
Prof.Gideon K. Misoi – Chairman	4
Dr Kamau Gachigi	4
Eng.James Bett	1
Mr.Jackson Kinyanjui	1
Amb.Joseph Kiplangat	4
Eng.Francis Gitau	1
Mr.James O.Nyambune	4
Eng.Benedict Kimau	1

Directors' Remuneration

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

Details of Directors' emoluments during the year are shown on page 122 in the financial statements.

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

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance.

During the year under review the company managed to increase the revenues by 3% from Kshs 51 million reported in 2015/16 to Kshs 53 million.
The increase was mainly attributed to the company receiving an order from KPLC for manufacture of Steel fittings for the government initiative for national power distribution and connectivity, fabrication of shackles for Isuzu East Africa Ltd (General Motors EA Ltd), Casting of railway brakeblocks for Rift Valley Railways, Collaborative Bio-diesel plant project under the Ministry of Energy.

The company managed to increase its gross profit margin by 227% from Kshs 3.5 million to Kshs 11.3 million. This was despite the high cost of production incurred by the company.
The main challenge the management faced in managing production cost is the local unavailability and fluctuating cost of material inputs especially steel and foundry inputs. Further, the stringent procurement laws that hampered the delivery time of customer jobs and worked in favour of our competitors.The company also experienced high down time due to machine breakdown.

The operating expenses declined from Kshs.272 million to Kshs 261 million, this represents a drop of 4% .
The management instituted cost cutting measures during the year which included down-sizing of staff and implementing austerity measures in various expenditure heads e.g printing and stationery, travel and accommodation and computer expenses.

The overall performance for the year as compared to 2015/2016 was an improvement from a loss of Kshs 139 million to a loss of Kshs 18 million representing a favourable change of 87%.

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

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

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

Statutory Requirements

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

The Company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs. 65,449,910 being corporation tax, VAT and Withholding Tax. The figure includes interest and penalties which has been accrued over a long period of time. During the year, the company and KRA agreed to settle the amount that was not in dispute totalling to Kshs. 1,005,699 representing Withholding tax and subsequently agreed to schedule another audit exercise to finalize the matter.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June, 2017 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. 17,900,655 (ksh.139,752,185 – 30th June 2016).

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of Numerical Machining Complex Ltd in accordance with Article 229 of the Constitution of Kenya and with the Section 14 of the State corporations Act (Cap 446).

By Order of the Board

Susan Mungai
Corporate Secretary
Nairobi
Date:

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, 2017 in accordance with IFRS and in the manner required by the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statement that are free from material misstatement whether due to fraud or error.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended 30 June, 2017, 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 29th November 2018 and signed on its behalf by:

for Gen(Rtd) Jeremiah M. Kianga	for Ms.Christine Mbando	Dr.Kamau Gachigi
Chairman	**Ag. Managing Director**	**Director**

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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 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on pages 1 to 31, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss & other 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 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of Numerical Machining Complex Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Companies Act, Cap 486 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Unconfirmed Value of 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 land measuring 288.09 hectares to individuals and other entities whose titles have not been wholly processed and released. The Company continued to pay rates based on the original title deed up to 2009. Further, a net amount of Kshs.6,640,310 has remained unpaid since 2001 from the sale of Company's parcel of land situated at Athi River. Recoverability of the debt remains doubtful.

(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.290 million in 2009 and revaluation gain of Kshs.158,993,190 arising thereon approved by the Board for inclusion in the financial statements in October 2016. However, the Company has not valued its assets in the last eight (8) years to take cognizance of the drastic change in value of its assets contrary to International Accounting Standard No.16 which stipulates that property, plant and equipment should be revalued after every five years.

Consequently, the accuracy, valuation and security of the investment property cannot be confirmed as fairly stated in the financial statements as at 30 June 2017.

2. Unconfirmed Status of Fixed Assets

As reported in the prior year, the property, plant and equipment balance of Kshs.424,620,155 is not supported with a fixed assets register to indicate the locality, condition and use of the assets, among other details, as stipulated in the Public Finance Management Act, 2012 regulations and the Company's Finance Policy Guidelines and Procedure Manual. As a result, it has not been possible to confirm 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 pilferage and theft.

It was further observed that apart from motor vehicles with a net book value of Kshs.2,098,197, other assets of the Company with an aggregate net book value of Kshs.422,521,958 as at 30 June 2017 were not insured. Under the circumstances, recoverability of assets remains doubtful should f un-foreseen of unfavorable nature occur.

3. Doubtful Trade and Other Receivables

As reported in the previous year, the trade and other receivables balance of Kshs.86,610,332 as at 30 June 2017 includes an amount totaling Kshs.2,394,183 being accountable advances from staff who have since left the Company's service. The receivables balance also includes an amount of Kshs.1,844,762 being deposits for tenders and performance bonds the Company participated in and which have been outstanding for a considerable period of time.

Further, included in the trade debtors balance of Kshs.73,557,308 is a debt amounting to Kshs.17,019,282 owed to the Company by Ms. Rift Valley Railways. Recoverability of this long outstanding debt is doubtful since Rift Valley Railways is no longer in operation. In addition, a prepayment of Kshs.75,400 for renewal of payroll software was not recognized as a receivable.

Under the circumstances, it has not been possible to confirm that trade and other receivables balance of Kshs.86,610,332 as at 30 June 2017 is fairly stated.

4. Longstanding Tax Payable

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

5. Longstanding Trade and Other Payables

The trade and other payables balance of Kshs.113,847,231 as at 30 June 2017 includes trade creditors amounting Kshs.10,486,280 which had no movement during the year under review. An advance of Kshs.3,000,000 due to University of Nairobi reflected under other payables did not also show any movement in the year under review. Although the Company has explained that the creditors were not cleared during the year due to inadequate funding, the Company risks being charged interest and penalties for not paying its creditors.

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

Emphasis of Matter

1. Lack of an Enabling Act.

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

2. Unexplained Status of Ordinary Share Capital

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

Key Audit Matters

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

Other Matter

1. Failure to Use Software in Inventory Control

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

2. Below-average Financial Performance

The Company achieved sales of Kshs.53,078,401 against a target of Kshs.213,572,800, representing a 25% revenue performance rate during the year under review. In the year 2015/2016, the Company's total sales were Kshs.51,569,147 against a target of Kshs.189,187,000 thus equivalent to a 27% performance rate. This was despite major capital investments in the last two (2) years amounting to Kshs.350 million (Kshs.144.2 million in 2015/2016 and Kshs.205.8 million in 2016/2017), which were intended to accelerate output and sales.

3. Sales and Marketing Plan Lacking

The Company has not put in place adequate measures to market and publicize its operations and products to prospective customers. For example, the Company's internet and emails are not functional and further, there are no elaborate strategies to drive sales. If management do not establish elaborate strategies to manage the Company's affairs, including marketing its products, the Company will not succeed in delivering its mandate.

Responsibilities of Management and Those Charged with Governance 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.

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON LEGAL AND OTHER REGULATORY REQUIREMENT.

As required by the Kenyan Companies Act, 2015, I report based on my audit that:

a) 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;

b) In my opinion, adequate accounting records have been kept by the Company, so far as appears from examination of those records; and,

c) The Company's financial statements are in agreement with the accounting records and returns.

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

Nairobi

11 October 2018

X. STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 KSHS	2016 KSHS
REVENUE			
Sales	1	53,078,401	51,569,147
Cost of Sales	2	(41,771,574)	(48,101,990)
Gross profit		11,306,827	3,467,157
Government Recurrent Grant	3	165,900,000	86,047,500
Deferred Income Recognized	9	64,464,615	42,456,936
Other Operating Income	4	131,035	42,100
TOTAL REVENUE		241,802,477	132,013,693
OPERATING EXPENSES			
Administrative Expenses	5a	(105,682,464)	(109,466,906)
Directors Expenses	5c	(5,362,087)	(5,478,190)
Staff Costs	5b	(147,731,622)	(156,188,844)
Selling and Distribution	6	(926,958)	(631,938)
TOTAL OPERATING EXPENSES		(259,703,132)	(271,765,878)
NET PROFIT /(LOSS		(17,900,655)	(139,752,185)
		===========	===========

XI. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	NOTES	2017 KSHS	2016 KSHS
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	424,620,155	362,783,733
Investment property	8	290,000,000	131,006,810
Total Non-Current Assets		**714,620,155**	**493,790,543**
Current Assets			
Inventories	10	90,626,679	89,750,723
Trade and other receivables	11a/20	86,610,332	85,056,383
Bank and Cash Balances	12	29,685,480	156,821,039
Total Current Assets		**206,922,490**	**331,628,145**
TOTAL ASSETS		**921,542,645**	**825,418,688**
EQUITY AND LIABILITIES			
Capital and Reserves		749,912,667	648,284,747
Total Capital and Reserves		**749,912,667**	**648,284,747**
Current Liabilities			
Tax payable	15/20	57,782,747	57,782,747
Trade and Other Payables	14/20	113,847,231	119,351,194
Total Current Liabilities		**171,629,978**	**177,133,941**
TOTAL EQUITY & LIABILITIES		**921,542,645**	**825,418,688**

The financial statements were approved by the Board on 29th November 2018 and signed on its behalf by:

for Ms. Christine Mbando	CPA Ferdinand Ododa	for Gen(Rtd) Jeremiah M. Kianga
Ag. Managing Director	**Head of Finance**	**Chairman**
	ICPAK M/No.17350	

XII. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	**Government grants kshs.**	**Revaluation Reserve Kshs.**	**Revenue reserves (losses) as restated kshs.**	**Capital Grants Kshs.**	**Total kshs.**
As At 1st July 2015 as Reported		**1,214,024,646**	**-**	**(1,373,844,993)**	**922,775,205**	**762,954,858**
Prior Period Adjustment	20		-	(32,460,989)	-	(32,460,989)
Capital Grants Received 2015/2016					100,000,000	100,000,000
Depreciation on assets bought from capital grants					(42,456,936)	(42,456,936)
Net profit (loss) for the year		-		(139,752,185)		(139,752,185)
			-			
Balance Restated As at 30th June 2016		**1,214,024,646**	**-**	**(1,546,058,167)**	**980,318,268**	**648,284,747**
Balance restated as at 1st July 2016		**1,214,024,646**		**(1,546,058,167)**	**980,318,268**	**648,284,747**
Revaluation Surplus			158,993,190			158,993,190
Capital Grants Received 2016/2017					25,000,000	25,000,000
Depreciation on assets bought from capital grants					(64,464,615)	(64,464,615)
Net profit (loss) for the year		-		(17,900,655)		(17,900,655)
Balance As at 30th June 2017		**1,214,024,646**	**158,993,190**	**(1,563,958,822)**	**940,853,653**	**749,912,667**
Balance Restated As at 30th June 2016		**1,214,024,646**	**-**	**(1,546,058,167)**	**980,318,268**	**648,284,747**

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 - 941,021,766) in the two years is recognised in the statement of cashflows under financing activities.

XIII. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 KSHS	2016 KSHS
OPERATING ACTIVITIES			
Profit (Loss) Before Taxation		(17,900,655)	(139,752,185)
Adjustments for:-			
Depreciation	7	65,014,447	43,006,768
Prior Period Adjustment	20	-	(943,127)
		47,113,792	(97,688,544)
WORKING CAPITAL CHANGES			
Increase/ Decrease in Stocks		(875,955)	29,809,951
Increase/ Decrease in Debtors and Prepayments		(1,553,949)	(4,234,556)
Increase/ Decrease in Creditors and Accruals		(5,053,863)	(22,518,524)
Net Cash generated from Operating activities		39,179,925	(94,181,572)
INVESTING ACTIVITIES			
Purchase of fixed assets	7	(126,850,868)	(144,274,698)
Net Cash generated from investing activities		(126,850,868)	(144,274,698)
FINANCING ACTIVITIES			
Decrease in Long term liability capital grant		(39,464,615)	57,543,064
(See the movement in Statement of Changes in Equity)			
Net Cash generated from financing activities		**(39,464,615)**	**57,543,064**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(127,135,559)**	**(180,913,206)**
CASH AND CASH EQUIVALENTS AS AT 1ST JULY 2016		**156,821,039**	**337,734,245**
CASH AND CASH EQUIVALENTS AS AT 30TH JUNE 2017		**29,685,480**	**156,821,039**

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2017 (Kshs "000")

Recurrent Revenue	Original Budget	Adjustment	Final Budget	Actual	Performance Difference	Percentage Variation
Gross sales Income	204,000	9,573	213,573	53,078	(160,495)	(75%)
Cost of Sales	(77,520)	-	(77,520)	(41,772)	35,748	(46%)
Gross Profit	**126,480**	**9,573**	**136,053**	**11,307**	**(124,746)**	**(92%)**
Grant Recurrent	250,000	(154,100)	96500	165,900	70,000	73%
Other Income & Deferred Income	600	-	600	64,596	63,996	
Total Recurrent Revenue	**377,080**	**(143,927)**	**233,153**	**241,634**	**8,481**	**4%**
Operating Expenses						
Personnel Emoluments	199,800	(44,300)	155,500	147,732	7,768	5%
Board Expenses	13,460	-	13,460	5,362	8,098	60%
Operating/Administrative Expenses	95,719	500	96,219	38,244	57,975	60%
Repairs and Maintenance	3,300	-	3,300	3,351	(51)	(2%)
Depreciation	17,434	(1,898)	15,536	65,014	(49,478)	(40%)
Total Operating Expenses	**329,713**	**(45,698)**	**284,015**	**259,703**	**24,312**	**9%**
Operating Profit/Loss	47,367	98,829	(51,462)	(17,901)	33,393	(65%)

1. **Gross Sales Income**
   The company achieved 25% of the projected revenues giving a variance of 160 million. These revenues were to be generated from diversified product lines.
   The projected sales were pegged on acquisition of capital equipment from development grant and commissioning of the furnaces.However, commissioning of the furnaces was not completed during the year under review and thus affected realization of the projected revenues. Projections are expected to be achieved during the financial year 2017/18 with steel fittings from REA,KPLC, Brake blocks from KR and Shackles from General Motors.
2. **Cost Of Sales**
   Production Materials consumed during the year gave a shortfall of 46% 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 heavely to reduced gross profit margins.

3. **Recurrent Grant.**
   The allocated recurrent grant at the beginning of the year was 95.9 million. The company further successfully negotiated for a supplementary budget of 70 million to pay staff dues and pending bills.

4. **Other Income and Deferred Income.**
   Deferred income realised from depreciation of assets bought through development grant (IAS20) were more than the budgeted estimates of 63 million.This was mainly attributed to commissioning and installation of new equipment case in point being the commissioning of the furnances.
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 and also there was a decline in staff during the year. This occasioned the drop from the projected estimates by 7.8 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 impelement 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 60% decline from the projections.
8. **Repairs and Maintenance.**
   There were more machine breakdowns and increase in routine maintenance of machines during the year than the projected expenditure of 3.3 million. This contributed to 2% 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.

XV. ACCOUNTING POLICIES

1. GENERAL INFORMATION

Numerical Machining Complex Ltd is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the Government of Kenya through 49 % of equity held by University of Nairobi and 51% held by Kenya Railways Corporation and is domiciled in Kenya. The entity's principal activity is the commercial production of steel, engineering design and development of machinery and components.
For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment at fair value, impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.
The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	**Effective date**	**Impact**
IFRS 14 *Regulatory Deferral Accounts (issued in January 2014)*	1st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*

Standard/Amendment to a standard	**Effective date**	**Impact**
Amendments to IFRS 11 titled *Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)*	1st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendments to IAS 16 and IAS 38 titled *Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)*	1st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendments to IAS 16 and IAS 41 titled Agriculture: *Bearer Plants (issued in June 2014)*	1st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*

Standard/Amendment to a standard	**Effective date**	**Impact**
Amendments to IAS 27 titled *Equity Method in Separate Financial Statements (issued in August 2014)*	1st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendment to IAS 19 (*Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)*	1st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendment to IFRS 5 (*Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)*	1st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendment to IFRS 7 (*Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014*	1st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendments to IFRS 10, IFRS 12 and IAS 28 titled *Investment Entities: Applying the Consolidation Exception (issued in December 2014)*	1st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Amendments to IAS 1 titled *Disclosure*	1st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation

Standard/Amendment to a standard	**Effective date**	**Impact**
Initiative (issued in December 2014)		of subtotals, the structure of financial statements and the disclosure of accounting policies. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1st Jan 2017	The amendments clarify that: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*

Standard/Amendment to a standard	Effective date	Impact
Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. *(The standard is not relevant to NMC Ltd for the FY 2016/17)*
Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities	1st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations. (The standard is not relevant to NMC Ltd for the FY 2016/17)*

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 *Revenue from Contracts with Customers (issued in May 2014)*	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 *Financial Instruments (issued in July 2014)*	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: • IFRS 9 requires all recognised financial

Standard	Effective Date	Impact
		assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • o For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: *Leases (issued in January 2016)*	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Directors do not plan to apply any of the above until they become effective and are applicable to the company. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

ACCOUNTING POLICIES (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

i) **Revenue from the design, manufacture & sale of industrial and automotive parts** is recognised in the year in which the entity delivers products to the customer, except for Training and sale of engineering software which is recognised at the completion of the training.

ii) **Grants from National Government** are recognised in the year in which the entity actually receives such grants.

iii) **Other income** is recognised as it accrues.

b) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.
Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

ACCOUNTING POLICIES (continued)

c) Depreciation and impairment of property, plant and equipment

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

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

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

Revalued assets are depreciated over their estimated useful lives.

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

d) Intangible assets

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

e) Amortisation and impairment of intangible assets

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

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

ACCOUNTING POLICIES (continued)

f) Investment property

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

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

g) Inventories

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

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.

ACCOUNTING POLICIES (continued)

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

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) Provision for staff leave pay

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

p) Comparative figures

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

q) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Numerical Machining Complex Ltd on the 2016-2017 budget following the governing body's approval.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

ACCOUNTING POLICIES (continued)

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

r) 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, 2017.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment losses on trade and other receivables

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

ii) Key sources of estimation uncertainty

Plant and equipment

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

ACCOUNTING POLICIES (continued)
Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 11.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

a) Bad and Doubtful Debts

Debts are written off only with Board of Directors' approval

- **Specific provisions**

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

- **General provision**

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

NOTES TO THE FINANCIAL STATEMENTS

1. SALES

	2017 Kshs	2016 Kshs
Manufacture of Machine tools	104,122	884,266
Manufacture of railway brake blocks	6,276,000	1,193,840
Manufacture & Sale of water pump	535,289	807,936
Casting of ferrous foundry products	685,548	1,370,793
Manufacture of general spares & Components	34,453,682	33,163,237
General Fabrication	5,737,720	10,131,865
Casting non-ferrous Foundry Products	53,014	30,000
Training & Sale of Engineering software	4,891,902	3,987,210
Engineering Services	341,123	
	53,078,401	**51,569,147**

2. COST OF SALES

	2017 Kshs	2016 Kshs
Opening stock	89,750,723	119,560,674
Add Purchases	42,647,529	18,292,039
Closing stock	(90,626,679)	(89,750,723)
	41,771,574	**48,101,990**

3. GRANTS FROM NATIONAL GOVERNMENT

Recurrent grants received during the year	165,900,000	86,047,500
Capital Grants received during the year	25,000,000	100,000,000
	190,900,000	**186,047,500**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2015-2016
			KShs	KShs	KShs
Ministry of Industry,Trade and Co-operatives	165,000,000	64,296,503	636,097	24,936,903	100,000,000
Total	**165,000,000**	**64,296,503**	**636,097**	**24,936,903**	**100,000,000**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. OTHER INCOME

	2017	**2016**
	Kshs	Kshs
Sale of tender documents	8,000	-
Sale of swarf/Disposal of obsolete items	123,035	42,100
Decrease/Increase in provision for bad & doubtful debts		
	131,035	**42,100**

5a. ADMINISTRATION COSTS

Audit Fees	696,000	696,000
Bad Debts	590,503	8,353,519
Bank Charges	420,019	352,107
Catering and Meals	1,473,280	1,578,698
Cleaning and Sanitation	412,755	308,981
Computer Expenses	726,821	1,355,350
Consulting Fees	430,088	674,400
Depreciation	65,014,447	43,006,768
Electricity	11,956,382	7,433,514
Foreign Exchange Loss	-	872
Foundry expenses	-	13,678
General Office Expenses	449,068	218,776
Health and Safety	162,929	205,298
Quality Management Systems (ISO)	707,284	753,426
Insurance	581,005	29,233,270
Legal Fees & land expenses	6,362,786	2,053,200
Licences	339,135	26,700
Maintenance of Buildings	619,770	335,580
Maintenance of Office Equipment	14,250	-
Maintenance to Machinery	2,717,418	2,974,441
Medical Expenses	158,559	-
Penalties and Interest	1,005,699	-
Research and Development	11,335	80,051
Security services	2,472,000	2,266,000
Stationery and Office Printing	283,699	584,509
Telephone Postage and Courier	2,398,485	1,922,711
Tendering Expenses	228,000	-
Training	1,106,399	907,062
Travel & accommodation	1,994,555	2,640,628
Vehicle Running Expenses	1,825,642	1,202,541
Water	452,174	288,827
Withholding Tax Expense	71,978	-
	105,682,464	**109,466,906**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5(b) STAFF COSTS

	2017 Kshs	2016 Kshs
Final Dues	3,747,218	-
Gratuity	20,462,063	22,296,283
Salaries & Wages	123,512,341	133,714,407
Staff Welfare	10,000	178,154
TOTAL	**147,731,622**	**156,188,844**

5(c) DIRECTORS EXPENSES

Committee, Honoraria & Board Expenses	5,362,087	5,478,190
TOTAL	**5,362,087**	**5,478,190**

6. SELLING AND DISTRIBUTION COSTS

Marketing and promotional expenses	926,958	631,938
	926,958	**631,938**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 PROPERTY, PLANT AND EQUIPMENT

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	**52,544,239**	**313,454,082**	**593,313,064**	**90,108,781**	**5,056,548**	**27,181,661**	**9,206,388**	**68,714,717**	**66,103,280**	**1,225,682,760**
DEPRECIATION										
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	**16,734,302**	**313,454,082**	**365,127,119**	**-**	**4,578,132**	**22,985,264**	**6,520,263**	**67,982,226**	**65,517,637**	**862,899,027**
NET BOOK VALUE										
As at 30th June, 2016	**35,809,937**	**-**	**228,185,944**	**90,108,781**	**478,416**	**4,196,397**	**2,686,125**	**732,491**	**585,643**	**362,783,733**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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
	625,853,751	80,915,469

The work in progress relates to a feasibility study for establishment of a steelmill at a cost of ksh 11,076,103.In addition, Installation and commissioning of an Air compressor at the CNC workshop valued at a cost of 1,615,655.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
8. INVESTMENT PROPERTY		
Opening valuation	131,006,810	131,006,810
Revaluation Gain	158,993,190	-
Net Book Value As at June 30 2017	290,000,000	131,006,810

The company has an investment of 703.67 Hectares of Land at Athi River. Out of this a total of 255.79 Hectares has been sold leaving a balance of 447.88 Hectares as investment in property worth Kshs 131,006,810.The property was valued in 1995 and this does not reflect the actual fair market value of the property. A revaluation by the Ministry of Lands to Kshs. 290 million done in 2009 has been included in the financial statements after the same had been adopted by Board of Directors.

9. DEFERRED INCOME

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

	2017 Kshs	2016 Kshs
Buildings deferred 2008	5,298	5,298
Buildings deferred 2010	319,974	319,974
Buildings deferred 2012	32,323	32,323
Buildings deferred 2014	39,474	39,474
Buildings deferred 2015	103,984	103,984
Buildings deferred 2017	102,118	-
Computers & office equipment deferred 2014	-	790,009
Computers & office equipment deferred 2015	72,493	72,493
Computers & office equipment deferred 2016	330,000	330,000
Computers & office equipment deferred 2017	5,453	-
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	46,875
Furniture fittings deferred 2017	21,372	-
Plant deferred 2009	-	374,218
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	24,999,741
Plant deferred 2017	24,701,395	-
Power separator deferred 2009	-	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	40,665
Tools deferred 2017	151,313	-
Vehicles deferred 2013	-	1,273,360
Vehicles deferred 2014	2,098,200	2,098,200
TOTAL	**64,464,615**	**42,456,936**

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2017 Kshs	2016 Kshs
10.	**INVENTORIES**		
	Computer Numerically Controlled machines (CNC) materials	21,269,996	18,802,832
	Finished goods	34,717,718	38,974,000
	Foundry raw materials	19,962,726	19,731,051
	Inserts and tools	5,488,008	5,512,287
	Stationery & General Stores	891,278	1,116,822
	Work in progress	8,296,953	5,613,733
		90,626,679	**89,750,723**
11. (a)	**TRADE AND OTHER RECEIVABLES**		
	Accountable Advances	2,030,819	2,351,396
	Athi River Land Sales Receivable	6,640,311	6,640,311
	Car Loans	112,904	112,904
	Deposits	6,814,736	2,913,162
	Prepayments	75,400	6,509,582
	Salary Advances	839,649	1,501,013
	Trade Debtors	93,114,022	87,793,794
	Value Added Tax	338,771	-
		109,966,613	107,822,161
	Less Provision for Bad Debts(11.c)	(23,356,281)	(22,765,778)
		86,610,332	**85,056,383**

11. (b)	**STAFF RECEIVABLES**	**2017** Kshs	**2016** Kshs
	Gross staff loans and advances	839,649	1,501,013
	Provision for impairment loss	(-)	(-)
		839,649	1,501,013
	Less: Amounts due within one year	(839,649)	(1,501,013)
	Amounts due after one year	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (c) Provision for Bad and Doubtful Debts	**2017**	**2016**
	Kshs	Kshs
Debtors Balance As At 30.06.17	93,114,022	87,793,794
Less		
Specific provision	(19,556,714)	(19,062,736)
	73,557,308	**68,731,057**
i) Specific Provision-Debtors over six years	19,556,714	19,062,736
ii) General Provision-2% of 73,557,308	1,471,146	1,374,621
iii) Provision for bad debts 2016/2017 (i)+(ii)	21,027,861	20,437,357
iv) Provision for bad debts 2015/2016.	(20,437,357)	(12,083,839)
v) Decrease/Increase in bad debts 2016/2017 (iii)-(iv)	**590,503**	**8,353,519**
vi) Provision for bad debts 2015/2016 bal b/d	22,765,778	14,412,259
vii) **Less/Add**: Decrease/Increase in bad debts 2016/2017.	590,503	8,353,519
Provision for bad debts 2016/2017 bal c/d (vi)+(vii)	**23,356,281**	**22,765,778**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

	2017 KSH	2016 KSH
Cash at bank	29,685,480	156,821,039
Cash in hand	-	-
	29,685,480	156,821,039

The cash at bank was held at Kenya Commercial Bank, the company's main bankers.
The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2016-2017 KShs	2015-2016 KShs
Current account			
Kenya Commercial Bank	1107169453	9,372,667	6,219,787
Kenya Commercial Bank	1127662244	20,312,813	150,601,252
Total		**29,685,480**	**156,821,039**

13. ORDINARY SHARE CAPITAL

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

2017 KSH	2016 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

		2017 Kshs	2016 Kshs
Trade Payables	(20)	23,088,692	17,066,947
Accrued Expenses		2,353,998	2,935,400
Other Payables		88,404,541	99,348,847
		113,847,231	119,351,194

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. TAX PAYABLE

	2017 KSH	2016 KSH
Balance brought forward	57,782,747	57,782,747

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 and KRA audit assessment of tax payable of Kshs. 57,782,747.This difference has been recognized in the financial statements and adjusted as per IAS 8.

16. RELATED PARTY DISCLOSURES

a. Government of Kenya

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

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

b. Capital Grants

Non-current funds received during the year ksh 25,000,000 (kshs 100,000,000 - 2016)

c. Key Management Compensation

The management salaries, other allowances & benefits compensation for the year ended June 2017 totalled to Kshs 24,843,408 (kshs 23,905,452 -2016).

17. CAPITAL COMMITMENTS

Amounts authorised and not contracted for	25,000,000	100,000,000
Amounts authorised and contracted for	-	
	25,000,000	100,000,000

18. CONTINGENT LIABILITIES

The Company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs. 31,517,862 being the difference between the self-assessed amounts of Kshs. 26,264,885 which has been outstanding for a long time. In their assessment, KRA tax audit had given a total tax payable of Kshs. 57,782,747. KRA has agreed to schedule another audit for NMC tax liabilities to clear the matter.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19.INCORPORATION

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

20. PRIOR PERIOD ADJUSTMENT

The prior period adjustment of kshs 32,460,989 relates to trade creditors amounting to Kshs 450,100 and trade receivables-accountable advance of 493,027 which had not shown any movement and investigation revealed they were book balances not supported by actual claims by the suppliers.Morever, there is a recognition of tax payable of Kshs 31,517,862 being charge on tax assessment carried out by KRA.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2017 and 30 June 2016 is made up as follows:

	Fully Performing Ksh	Past due Ksh	Impaired Ksh	Total Ksh
At 30 June 2017				
Cash and cash equivalents	29,685,480	-	-	29,685,480
Trade receivables	6,125,134	86,988,888	(23,356,281)	69,757,741
	35,810,614	86,988,888	(23,356,281)	99,443,221
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
	172,518,318	72,096,515	(22,765,778)	221,849,055

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.

	2017 Within 1 year	2017 Over 1year	2016 Within 1 year	2016 Over 1year
	Ksh	Ksh	Ksh	Ksh
Financial liabilities				
Trade Payables	6,139,828	16,948,864	1,250,063	15,366,784
	6,139,828	**16,948,864**	**1,250,063**	**15,366,784**
Financial assets				
Trade Receivables	6,125,134	86,988,888	15,697,279	72,096,515
Cash and cash equivalents	29,685,480	-	156,821,039	-
	35,810,614	**86,988,888**	**172,518,318**	**72,096,515**
Net liquidity gap	**29,670,786**	**70,040,024**	**171,268,255**	**56,729,731**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(c) Market risk

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

(i) Currency risk

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

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

(ii) *Interest rate risk*

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

XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue/Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1	Investment Property - Land	The company had factored in its budget estimates for the financial year 2016/17 an approximate amount of kshs. 97.5 million to enable the exercise of revaluation, master plan on utilization, installation of concrete beacons, construction of a police post, processing of title deeds and legal services of its parcel of land located at Athi River. However, the actual amount approved for the financial year was not sufficient to undertake the exercise.	Board of Directors/MD	On-going	June 2019
		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. 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.	Finance Manager	Resolved	June 2017
2	Trade and Other Receivables	Trade and other receivables that have had no movement as at 30 June 2017 are being followed up and debt	Finance manager	In-Progress	June 2018

		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. 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.			
3	Trade and Other Payables	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. The strategies being employed include seeking of additional funds from the parent ministry to clear the pending bills.	Finance Manager	In-Progress	June 2018
4	Tax Payable	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.	MD/Finance Manager	In-Progress	June 2018

XVII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

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

Status of Projects completion

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

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

XVIII. APPENDIX 2: INTER-ENTITY TRANSFERS

	ENTITY NAME:	**NUMERICAL MACHINING COMPLEX LTD**		
	Break down of Transfers from the Ministry of Industry,Trade and Cooperatives			
	FY 16/17			
a.	**Recurrent Grants**			
		Bank Statement Date	Amount (KShs)	2016/2017
		23/09/2016	23,975,000	
		14/11/2016	23,975,000	
		20/12/2016	23,975,000	
		07/03/2017	11,987,500	
		12/04/2017	70,000,000	
		30/06/2017	11,987,500	
		Total	**165,900,000**	
b.	**Development Grants**			
		Bank Statement Date	Amount (KShs)	2016/2017
		21/09/2016	12,500,000	
		30/11/2016	12,500,000	
		Total	**50,000,000**	
c.	**Direct Payments**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		Total	-	-
d.	**Donor Receipts**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		Total	-	-

There was no direct payments and donor receipts for the FY2016/2017.

XIX. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds				Where Recorded/recognized					
	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	Total Transfers during the Year
Ministry of Energy	01/07/2016	Recurrent	10,855,301	-	-	-	10,855,301	-	10,855,301
Ministry Of State For Defence			490,521	490,521	-	-	-	-	-
Ministry Of State For Defence			109,493	109,493	-	-	-	-	-
Ministry Of State For Defence			91,476	91,476	-	-	-	-	-
Ministry Of State For Defence			54,440	54,440	-	-	-	-	-
Ministry Of State For Defence			240,038	240,038	-	-	-	-	-
Total			**985,967**	**985,967**	**-**	**-**	**10,855,301**	**-**	**10,855,301**