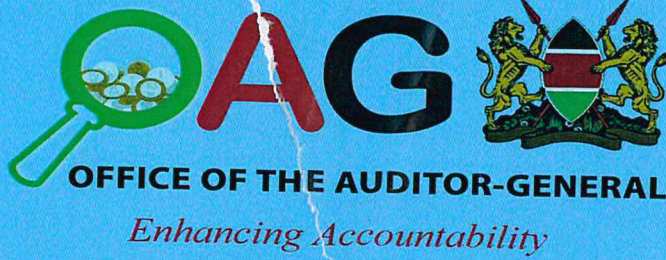



REPUBLIC OF KENYA



REPORT

 THE NATIONAL ASSEMBLY PAPERS LAID	
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THE AUDITOR-GENERAL

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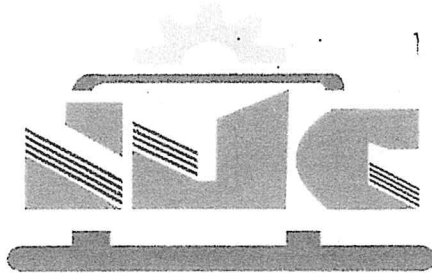
**NUMERICAL MACHINING
COMPLEX LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

19 FEB 2021

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Numerical Machining Complex Ltd

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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

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KEY ENTITY INFORMATION

Numerical Machining Complex Ltd

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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
Mr. Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA	Chairman	Appointed on 17 th October 2019
Mr. Michael Waweru, FCCA, FCPA, CBS	Chairman	Appointed on 6 th June 2018-Left 16 th October 2019
Eng. David Mwadali	Managing Director	Appointed on 18 th February 2020.
Eng. Benedict Kimau	Ag. MD	Appointed on 29 th June 2018-Left 31 st March 2020
Mr. Bernard Njiinu Njiraini	Managing Director	Appointed on 30 th January 2019-Left 13 th September 2019
Prof. Elijah Biamah	Member	Appointed on 30 th October 2019
Mr. Phillip Nyingi	Alternate to Permanent Secretary, Chief of Staff and Head of Public Service	Appointed on 3 rd September 2015
Mr. Ambrose Orwa	Alternate to Principal Secretary, National Treasury and Planning	Appointed on 14 th Oct. 2018
Eng. Francis Gitau	Alternate to PS Ministry of Transport and Infrastructure.	Appointed on 26 th August 2015
Mr. James Nyambune	Alternate to Principal Secretary in the Ministry of Education.	Appointed on 7 th August 2015
George Makateto	Alternate to Principal Secretary, Ministry of Industry, Investment and Trade	Appointed on 7 th August 2018
Julia Wanjiru	Appointed as an alternate to the PS Ministry of Defence in May 2019	Appointed on May 2019
Eng. Stanley Kaguongo	Independent Member	Appointed on 10 th May 2018
Prof. Angelina Nduku Kioko	Independent Member	Appointed on 10 th May 2018
Mr. Samuel Kamau	Independent Member	Appointed on 3 rd May 2019
Eng. James Bett	Independent Member	Appointed on 10 th May 2018

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

Ag. Corporate Secretary

Susan Mungai
P.O. Box 70660-00400
Nairobi

Registered Office

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

Corporate Headquarters

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

Corporate Contacts

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

E-mail: enquiries@nmc.go.ke

Website: www.nmc.go.ke

Corporate Bankers

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

Independent Auditors

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






Principal Legal Advisers

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







Numerical Machining Complex Ltd

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For the year ended June 30, 2020**

THE BOARD OF DIRECTORS

<p>Mr. Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA (68 years) <i>Chairman</i> He joined the Board on 17th October 2019. He is a retired Major General of Kenya Navy. He has vast experience in logistics and procurement.</p>	
<p>Mr. M. G. Waweru, FCCA, FCPA, CBS (69 years) <i>Chairman</i> He joined the Board on 6th June 2018. A former KRA Commissioner General and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd. He holds an MBA, B.Com. and a fellow of ACCA & CPA – Left 16th October 2020</p>	
<p>Eng. David Mwadali (58 years) <i>Managing Director</i> He was appointed Managing Director on 18th February 2020. A registered engineer with EBK and IEK. He holds BSc Mechanical Engineering and MBA in project management both from UON. He has over 30 years' experience Railways maintenance and operations.</p>	
<p>Eng. Benedict Kimau (63 years) <i>Ag. Managing Director</i> He was appointed as the Ag. Managing Director on 29th June 2018 Until March 2019 and appointed from 1st September 2019 to 31st March 2020. A registered engineer with EBK and he holds BSc Civil Engineering, University of Nairobi, with experience in Railways design, construction & maintenance and also special skills in safety management- Left 31st March 2020</p>	
<p>Mr. Bernard Njiraini (48 years) <i>Managing Director</i> He was appointed Managing Director on 30th January 2020. He is an industrial engineer and organizational leader with over 21 years of experience. He holds an Msc. In Industrial Engineering, BSc in Mechanical Engineering and post graduate Diploma in Strategic Studies. He is a member of IEK- Left 13th September 2019</p>	


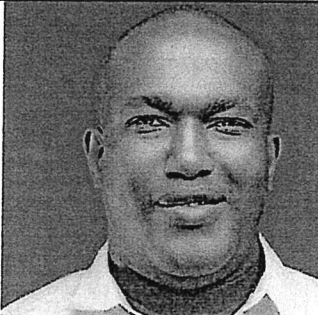



Annual Reports and Financial Statements
For the year ended June 30, 2020

<p>Prof. Elijah K. Biamah, PhD, MBS, MEIK (68 years) <i>Member</i> He joined the Board on 30th October 2019. He is a professor of Environment and Water Systems Engineering, School of Engineering, University of Nairobi. Safety Health and Environmental Expert for major roads and multipurpose.</p>	
<p>Mr. Phillip Nyingi (53 years) <i>Member</i> Appointed as an alternate to Permanent Secretary, 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.</p>	
<p>Mr. Ambrose Orwa (60 Years) <i>Member</i> He is Alternate Director to the PS/ National Treasury and Planning. He holds a Bachelor/Master of Philosophy degree in Economics from the University of Nairobi and a Bachelors of Arts degree in Sociology and Economics from the UON. He has over 32 years' experience in national development planning, 10 of which he has been managing development financing sourcing at the National Treasury.</p>	
<p>Eng. Francis Gitau (55 Years) <i>Member</i> Alternate to PS Ministry of Transport and Infrastructure. He comes with 28 years of experience. He is a registered Consultant Engineer with the EBK and holds a Bsc Civil Engineering from the UON, an Executive Masters of Business Administration from JKUAT and is currently undertaking an Msc (Transportation) degree from the University of Nairobi. He is the Chairman of the Mechanical Transport Fund and serves as the Infrastructure Secretary in the State Department of Infrastructure.</p>	
<p>Mr. James Nyambune (55 years) <i>Member</i> He was appointed to the Board on 7th August 2015 as alternate to the PS in the Ministry of Education. He holds a Bachelor of Technology in Education, Moi University and Masters of Philosophy in Technology Education from University of Eldoret.</p>	
<p>Eng. Stanley Kaguongo (59 Years) <i>Member</i> He was appointed to the Board on 17th April 2015 as an independent Director. A registered engineer with EBK , holds a BSc. Civil Engineering from UON and MSc in International Construction Management. He has over 30 years' experience in the field of civil and structural engineering designs and contract administration.</p>	

Numerical Machining Complex Ltd

Annual Reports and Financial Statements







For the year ended June 30, 2020

<p>Mr. George Makateto (50 years) <i>Member</i> He was appointed on 7th August 2018 as an alternate to the Permanent Secretary, Ministry of Industrialization, Trade & Enterprise Development (MOITED). He holds MPhil in Technology Education (Automotive Engineering) and Bachelor of Technology Education (Automotive Option). He also holds a Kaizen certification, ISO Certification EIA Renewable energy & RIO-BYhas 25 years' experience in accreditation and quality assurance, industrial development, promotion and productivity improvement.</p>	
<p>Mr. Samuel Kamau (40 years) <i>Member</i> He was appointed on 3rd May, 2019 and he is a prominent business man.</p>	
<p>CPA Julia Ng'ang'a (42 years) <i>Member</i> Appointed as an alternate to the PS Ministry of Defence in May 2019. Ms. Ng'ang'a holds an MBA in Finance and a Bachelor's degree in Economics from the University of Nairobi. She is also a Certified Public Accountant and a member of ICPAK. She has over 14 years' experience in Public Finance having worked as a Finance Officer in various Government Ministries.</p>	
<p>Prof. Angelina Nduku Kioko (62 Years) <i>Member</i> She was appointed to the Board on 17th April 2015. She holds a Doctorate of Philosophy in Linguistics from Monash University, Australia and has wide experience as a Professor of English and Linguistics (USIU-A).</p>	
<p>Eng. James Bett (62 Years) <i>Member</i> He was appointed to the Board on 27th April 2015 as an independent Director. He is a registered engineer with EBK and holds a Master's Degree in Industrial Engineering and management from University of Sierra Leone. He has wide experience in the sugar and tea industries.</p>	

Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020

 <p>Dr. Charles Kireru Ph.D.</p>	<p>Dr. Charles Kireru is the Head of Human Resources and Administration. He holds Ph.D. (JKUAT); (MSc) (JKUAT); B. Arts (Egerton) and Higher National Diploma in Human Resource Management(KNEC)</p>
 <p>CPA Patrick Kariuki.</p>	<p>CPA Patrick Kariuki is the Finance Manager. He holds an MBA (<i>Finance and Accounting</i>) from <i>Mt Kenya University</i> and <i>BBM(Accounting)</i> from <i>Moi University</i>. He is also a registered member of ICPAK and CPS(Finalist).</p>
 <p>Ms Zipporah Samoei</p>	<p>Ms Zipporah Samoei is currently in charge of Sales & Marketing. She has over 10 years' experience as a Marketing professional. She is a Diploma holder of Marketing by the Chartered Institute of Marketing. She is an Associate Member CIM.</p>
 <p>Fredrick Okumu</p>	<p>Fredrick Okumu Otieno is the Manager, Supply Chain Management. He holds MBA (SCM) and a BCOM (Finance). He is registered with CIPS and has CPA Part 2.</p>
 <p>CPA William Njeru</p>	<p>CPA William Njeru is the Ag. Internal Audit Manager. Holder of a Bachelor of Commerce (Finance Option) and a registered member of ICPAK .</p>
 <p>CS. Susan Mungai, <i>Company Secretary</i></p>	<p>CS Susan is the Ag. Company Secretary and a Member of ICPSK M/No. 2031. She holds an MBA in Strategic Management (USIU), Bsc. IBA in Marketing & Entrepreneurship (USIU), CPS (K) and a Diploma in Human Resource Management (Kenya Poly). Has over 10 years' experience handling Board matters and strategy.</p>

During the FY2019/20, NMC had revenue target of Kshs.260 million to be achieved by June 2020. As at the end of the financial year, the achieved performance was Kshs.69.8 million representing 26.8% of the target. These revenues were achieved mainly through sales of KPLC universal clamps and KRC brake blocks.

The company strives to build on its heritage and wealth of experience to deliver quality products to our customers for business growth and improved shareholders value. During the financial year, the 3rd and 4th quarters which the organization had anticipated to execute more orders was greatly affected by the outbreak of the Covid-19 virus in the Country. Despite the challenges, the Board and Management team remained focused on putting in place measures to enable the company strengthens its financial position.

The Company's turnaround strategy in line with Big 4 Agenda under the manufacturing pillar will no doubt better the position of the company in the long-term sustainable growth across its business.

Future prospects

Moving forward the company is projecting to achieve revenues of Kshs.260M in the coming financial year. This will be actualized through the manufacture of steel fittings for KPLC, manufacture of saddles for the railway industry and brick making machines for the housing sector. The organization has also finalized on the design of grinding media balls a product for the cement and mining sector which it intends to roll out in the new financial year thus contributing to the sales revenue.

Appreciation

We are indeed grateful to our shareholders for their support, understanding and patience as the Board of Directors continues with the turnaround efforts. The Government has showed goodwill in assisting NMC Ltd financially however we endeavor to grow in profitability and ensure self-sustainability. I thank our other stakeholders including employees, customers, suppliers and fellow Board members for their dedicated contribution and continued support to NMC Ltd.



Mr. Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA
Chairman

Annual Reports and Financial Statements

For the year ended June 30, 2020

REPORT OF THE MANAGING DIRECTOR

During the year under review, NMC made several achievements in regard to sourcing of orders for purposes of meeting its revenue targets, reduction on costs and putting in place strategies that will enable the organization to be self-sustaining. NMC had also planned to finalized and launch its revised Strategic Plan which articulates the process of implementing the turn-around strategy and the foundation for future growth but due to the changes in the Managing Director the same did not materialize and is planned to be done in the new financial year.

Company performance

NMC increased its sales revenue from Kshs.63M to Kshs.69.8M during the financial year. The company had anticipated executing at least 60% of the received orders totalling to Kshs.221m but the Covid-19 pandemic in the Country seriously affected the 3rd and 4th quarters.

The operating loss was Kshs.8,885,440 during the financial year 2019/2020 compared Kshs. 5,843,763 in the FY2018/2019. This was mainly attributed to increased cost of production. Results for the year were as below:-

- Revenues increased by 11% to stand at Kshs. 69.8M from Kshs.63M
- The loss before tax increased from Kshs.5.8M to Kshs.8.9M.


During the year under review, NMC received a grant of Kshs.135.9M for recurrent expenditure which was a similar figure received in the previous year. On development funds, NMC received Kshs.297.4M, of this amount Kshs.222.4M was meant for the Big 4 Agenda while Kshs.75M was for modernizing and refurbishment of NMC facility.

With the Governments support, NMC focuses on modernizing its facilities for projects that will yield high return on investment and immensely contribute to being the driver of industrialization in Kenya. The company will also finalize on the on-going projects aimed at modernization of the foundry and machining workshop facilities.

With the current goodwill on the manufacturing sector and Governments support of the manufacturing pillar, affordable housing under the Big 4 Agenda, Buy Kenya Build Kenya Initiative, Local Content, NMC will capitalize on the opportunities available to enter into the market and supply various products and machinery to include; brick making machines, grinding media balls and spare parts. NMC has finalized on the design and manufacture of grinding media balls which it intends to roll out in the market in the next financial year thus contributing to the budgeted revenue target of Kshs.260M in the financial year 2020/2021.

APPRECIATION

I am indeed grateful to all stakeholders who have made the company remain on focus despite the various challenges. The Government support has been crucial to our operations. The Board of Directors and employees of the Company have also played their respective roles. I extend my gratitude to our customers, suppliers for their contribution to the continued business support. As NMC, we are rolling up our sleeves as we step up efforts to put NMC Ltd on a rebound path.



Eng. David Mwadali
Managing Director

CORPORATE GOVERNANCE STATEMENT

At Numerical Machining Complex Ltd, the Board places a high degree of importance on maintaining 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 Numerical Machining complex Ltd and conducts its business and operations with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The Board of Directors of the Numerical Machining complex Ltd comprises of the Chairman who is appointed by the President, the Managing Director is appointed by the CS 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 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

The Board meets regularly and has a formal schedule of matters reserved to it. Board papers are circulated well in advance of the Board meetings by the Acting Company Secretary. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas.

The Board considers and advises the Cabinet Secretary for Ministry of Industry, Trade and enterprise 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 company.

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairpersons of the Committees reporting to it. These committees include: Audit & Risk, Human Resource, Finance, Technical and a Land Ad-hoc.

Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020

Composition of the Board and Committees is as follows:

Name of Director	Board Position	Board Committees			
		Human Resource	Audit & Risk	Finance & Technical	Land Ad- hoc
Maj. Gen. (Rtd.) Pastor Awiti (Oct 2019 to date)	Chairman				
Michael Waweru (May 2018 to October 2019)	Chairman				
Prof. Elijah K. Biamah	Alternate to the Vice Chancellor University of Nairobi	√			√
George Makateto (February 2020 to date)	Alternate to PS, Ministry of Industry ,Investments and Trade				√
Eng.Francis Gitau	Alternate to PS, Ministry of Transport and Infrastructure				
Ambrose Orwa	Alternate to PS, National Treasury and Planning		√		
Philip M Nyingi	Alternate to PS, Chief of Staff & Head of Public Service	√			
James Nyambune	Alternate to PS Ministry of Education	√		√	Chair
Mr. King'uru Wahome (August 2019 to February 2020)	Alternate to PS, Ministry of Industry ,Investments and Trade			√	
Prof. Angelina Kioko	Member	Chair			√
Eng. James K Bett	Member			Chair(Technical)	
Eng Stanley Kaguongo	Member		Chair		
Julia Wanjiru				Chair(Finance)	
Samuel Kamau	Member			√	

Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020

During the year, the attendance of the Board and Committees is as follows:

Total No. of Meetings	Induction	Board Meetings	Board Committees				Finance & HRM	Finance & Audit
			Human Resource	Audit & Risk	Finance & Technical	Land Ad- hoc		
	1	6	2	5	3	1	1	1
Maj. Gen. P. Awitta		4\6						
Michael Waweru		2\6						
George Makateto		1\6						
Ambrose Orwa		5\6		5\5	1\3			1\1
Philip M, Nyingi		1\6	2\2				1\1	
James Nyambune		6\6	2\2		3\3	1\1	1\1	
Prof. Angelina Kioko		6\6	2\2			1\1	1\1	
Eng. James K. Bett		6\6	1\2		3\3			
Eng. Stanley Kaguongo		6\6	1\2	5\5				1\1
Eng. Benedict Kimau		3\6	1\2	1\5	2\3			1\1
Julia Wanjiru	1\1	4\6			2\3		1\1	1\1
Samuel Kamau	1\1	6\6			3\3		1\1	1\1
Kinguru Wahome	1\1	5\6			3\3	1\1		
Prof. Peter M. Ngau (On behalf of UON)		1\6						
Prof. Elijah. K. Biamah		4\6	1\2			1\1		

Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2020

The roles of the various Board committees are as below:

Audit & Risk Committee	Held 5 meetings during the year
Composition	The committee comprises of three non-executive Directors. It invites on need basis the Managing Director & Finance Manager to its meetings. External auditors are also invited to attend the meetings when necessary.
Terms of reference	<ul style="list-style-type: none">• 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 integrity in financial transactions of the Company.
Human Resource Committee	Held 3 meetings during the year
Composition	The committee comprises of four Directors. It invites the Managing Director and the Head of Human Resource and Administration to its meetings.
Terms of reference	<ul style="list-style-type: none">• Appointment of, and terms and conditions of service for the Managing Director;• Appointment, promotion and disciplinary issues of management.• Remuneration structure for staff;• Performance bonus for the Managing Director and staff;• Human resources policies and corporate organisational structure to support business
Finance & Technical Committee	Held 4 meetings during the year
Composition	The committee comprises of four Directors. It invites the Production Manager, Research & Development Engineer, Finance Manager, Sales and Marketing manager and Supply Chain Manager to its meeting.

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

Terms of reference	<ul style="list-style-type: none">• The committee advises the Board on strategies to enhance performance of the Company.• The two committees review the Company's Strategic Plan, annual corporate strategic plan and annual corporate budget, financial and technical Performance.• It is also responsible for monitoring major projects under implementation.• Directing strategies for improving revenue and customer experience.
Land Ad-Hoc Committee	Held 1 meetings during the year
Composition and terms of reference	During the year, the board formed the land ad-hoc committee to discuss and deliberate on pertinent issues pertaining to NMC land in Athi-River land. The matters discussed included: Processing of title deeds for 500 acres sold off and securing of the remaining parcel of land i.e 1200 acres from further encroachment and master plan utilization.

Directors' Remuneration

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance.

During the year under review the company's turnover increased by 11% to stand at Kshs 69.8m from Kshs 63.1M reported in the FY 2018/2019. The increase was mainly attributed to sale of KPLC clamps, Brake blocks and Saddles to Kenya Railways.

During the year under review the staff costs have increased by 21% to Kshs. 135M as compared to Kshs.112M incurred in the year 2018/2019. This increase in staff remuneration can be attributed to basic salaries harmonization undertaken by the management within the year under review.

During the year 2019/2020 the company incurred a loss of Kshs 8.9M an increase from a loss of Kshs 5.8M reported in the year 2018/2019.

The challenges the management faced in managing production cost included:

- Management of inventory as there is no separate stores for production and procurement.
- Local unavailability of production inputs and spares
- Inadequate working capital
- Insufficient or no credit terms from suppliers of raw materials
- Fluctuating cost of material inputs especially steel and foundry inputs.
- Stringent procurement laws that hampered the delivery time of customer jobs and worked in favour of our competitors.
- Down time due to machine breakdown.

Measures put in place by management to mitigate and improve the financial performance in the coming year include:-

- Reduction of cash conversion cycle.
- Frame work contract with suppliers to ease delivery of material inputs and in conformity with PPDA 2015.
- Investment in equipment and in house galvanizing plant to enhance production efficiencies.
- Negotiate credit terms with our main suppliers in order to improve on cash flow.

Statutory Requirements

The company managed to settle all the statutory obligations in time hence no penalties or interest. These include PAYE, NHIF, and 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. The management is in discussion with KRA aimed at settling the issue to finality.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

During the year under review Numerical Machining Complex Ltd supported the parent Ministry of Industrialization, Trade & Enterprise Development in the afforestation program aimed at improving the national forest cover.

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

The long term strategy is to engage in strategic CSR which will not only benefit our stakeholders but will also strengthen the corporation's corporate strategy and leverage on key focus areas.

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June 2020 which show the state of the *company's* affairs.

Principal activities

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

Results

The results of the company for the year ended 30th June 2020 are set out on page one (1) During the year the company made a loss of Kshs 8,885,440 (Kshs. 5,843,763 – 30th June 2019)

Directors

The members of the Board of Directors who served during the year are shown on page (xiv-vxiii) In accordance with Regulation of the state corporations Act (Cap 466). The Board of Directors was appointed from 27th April 2015.

Auditors

The Auditor General is responsible for the statutory audit of Numerical Machining Complex Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Susan Mungai
Company 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 financial statements in respect of that *company*, which give a true and fair view of the state of affairs of the *company* 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 *company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *company*. The Directors are also responsible for safeguarding the assets of the *company*.

The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *company'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, PFM Regulation, 2015 and the State Corporations Act, Cap 446 The Directors are of the opinion that the *company's* financial statements give a true and fair view of the state of *company's* transactions during the financial year ended June 30, 2020, and of the *company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *company*, which have been relied upon in the preparation of the *company's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *company's* financial statements were approved by the Board on _____ 2020 and signed on its behalf by:



Mr. Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA
Board Chairman



Eng. David Mwadali
Managing Director

REPUBLIC OF KENYA

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Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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 39, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Numerical Machining Complex Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Value of Investment Property

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.290,000,000 under investment property. However, the following anomalies were noted:

- (i) As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares in Mavoko, Athi River. In 2001, the Company, with the consent of the Government sold part of land measuring 242.89 hectares to individuals and other entities whose title deeds have not been wholly processed and released. The Company continued to pay rates based on the original title deed up to 2009. Further, a net amount of Kshs.6,640,310 due from individuals has remained unpaid since 2001 from the sale of the parcel of the land. Recoverability of the debt remains doubtful.
- (ii) The remaining portion of the unsold land measuring 460.70 hectares is not fenced and has been encroached by informal settlers and other parties who

have put up permanent structures. Further, the portion of land 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 eleven (11) years to take cognizance of the drastic change in value of its assets. This is contrary to International Accounting Standard No.16 and No.40 which stipulates that property, plant and equipment should be revalued after every five years and lease payments be recognized as an expense in the statement of financial performance on a straight-line basis over the lease term. However, the leasehold property had not been amortized.

- (iii) On 14 January, 2003 a new title deed was issued to the Numerical Machining Complex Limited for 202.4 hectares under title No. I.R. 91216 land reference No.11895/22. It is not clear under which circumstances the new title deed was issued to the Company. A letter from the Ministry of Lands dated 17 February, 2009 indicated that LR No.11895/20 had been subdivided and new LR's given. It is not clear why the Company requested the Ministry to value land reference 11895/20. The Management did not provide the new title deed for audit verification.

Under the circumstances, the accuracy, ownership, the accuracy, valuation and security of the investment property balance of Kshs.290,000,000 as at 30 June, 2020 could not be confirmed.

2. Trade and Other Payables

2.1 Long Outstanding Tax Payable

The statement of financial position reflects a balance of Kshs.174,614,483 under trade and other payables which, as disclosed in Note 22 to the financial statements, includes an amount of Kshs.67,844,274 in respect of other payables. The latter balance includes an amount of Kshs.57,782,747 relating to tax payable. As previously reported, the tax payable balance relates to a tax liability of Kshs.26,264,885 which has been reflected in the financial statements since 1999. The amount remains outstanding and continues to attract further penalties and interest, a situation which could have been avoided.

2.2 Long Outstanding Trade and Other Payables

The aging analysis revealed long outstanding accounts payables of Kshs.142,811,204 that have been outstanding for more than a year casting doubt of the Company's ability to honor its obligations when they fall due.

2.3 Unsupported Trade Payables

The trade and other payables balance of Kshs.174,614,483 also includes an amount of Kshs.29,366,758 in respect of trade payables. However, the supporting documents for the trade payables amounting to Kshs.29,366,758 were not provided for audit review.

Under the circumstances, the accuracy, validity and existence of the trade and other payables balance of Kshs.174,614,483 as at 30 June, 2020 could not be confirmed.

3. Trade and Other Receivables

As disclosed in Note 16 to the financial statements, the statement of financial position reflects a balance of Kshs.91,647,641 for trade and other receivables which is net of provision for bad and doubtful debts of Kshs.25,634,863. However, the following anomalies were noted.

- (i) The trade and other receivables balance of Kshs.91,647,641, as disclosed in Note 16(d) to the financial statements, includes an amount of Kshs.2,857,021 relating to staff receivables. The latter balance includes an amount of Kshs.1,971,336 for salaries advances from staff who have since left the Company's service.
- (ii) As disclosed in Note 16(a) to the financial statements, the trade and other receivables balance of Kshs.91,647,641 also includes an amount of Kshs.6,753,214 in respect of other receivables. The latter balance includes an amount of Kshs.112,904 relating to car loan for a former employee which has been outstanding since 2012. Further, the balance includes receivables of Kshs.6,640,310 for Athi River land sales which have remained unpaid since 2001.
- (iii) As previously reported, the trade and other receivables balance of Kshs.91,647,641 includes an amount of Kshs.29,955,716 which in turn include an amount of Kshs.1,544,762 which has been long outstanding for a considerable period. Although the Management explained that the amount related to deposits for tenders and performance bonds the Company participated in, evidence in support the long outstanding balance was not provided for audit review.
- (iv) The trade and other receivables balance of Kshs.91,647,641, as disclosed in Note 16(b) to the financial statements, includes an amount of Kshs.75,085,243 in respect of trade receivables. The trade receivables Kshs.75,085,243 includes a debt of Kshs.17,019,282 due from M/s Rift Valley Railways. Recoverability of this long outstanding debt is doubtful since Rift Valley Railways is no longer in operation.

Under the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.91,647,641 as at 30 June, 2020 is fairly stated.

4. Un-Supported Expenditure

The statement of profit and loss and other comprehensive income reflects cost of sales of Kshs.109,315,623 which, as disclosed in Note 7 to the financial statement, includes an amount of Kshs.31,418,732 in respect of cost of sales on goods. However, supporting documents for an expenditure totalling Kshs.8,038,222 were not provided for audit review.

Under the circumstances, the accuracy and propriety of the expenditure of Kshs.8,038,222 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Numerical Machining Complex Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Unexplained Status of Ordinary Share Capital

As disclosed in Note 18 to the financial statements, the Kenya Railways Corporation owns 51% of the issued 75,000,000 ordinary shares in Numerical Machining Complex Limited while 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.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final income budget and actual income on comparable basis of Kshs.480,579,000 and Kshs.273,166,000 respectively resulting in under collection of Kshs.207,413,000 or 43%. Similarly, the statement reflects a total expenditure of Kshs.282,051,000 against an approved budget of Kshs.476,796,000 resulting to an under-expenditure of Kshs.194,745,000 or 41%. Further, the Company had received capital grants totalling to Kshs.125,500,000 (2018/2019-Kshs.50,000,000 and 2019/2020-Kshs.75,000,000) for the modernization of the Numerical Machining Complex (NMC) Foundry and Machining workshop. However, there was no evidence provided to show that the grants were utilized for the intended purpose. The revenue underperformance and the under-expenditure may have impacted negatively on the achievement of the planned goals and objectives of the Company.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management did not provided reasons for the delay in resolving the prior year audit issues. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Irregular Procurement of Goods

- (i) The Company procured steel rods through framework agreement at a cost of Kshs.509,935 for a period between 01 September, 2016 to 31 August, 2019. However, the vendor was the only firm with the framework agreement contrary to Section 114(1) c of Public Procurement and Asset Disposal Act, 2015 which requires that there should be at least seven vendors per category.
- (ii) The Company issued tenders for supply of raw material for manufacturing of 200 saddles that were to be supplied to the Kenya Railways Corporation at estimated cost of Kshs.92,788,656 without having sufficient funds contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015. Further, the tender opening minutes were not initialized on each page as required by Section 78(11)(a) of the Public Procurement and Asset Disposal Act, 2015.
- (iii) A local firm was contracted to supply hydraulic hoses for a contract sum Kshs.472,949. However, the other two companies invited to submit the quotations were not in the list of prequalified suppliers.

In view of the foregoing, the Company was in breach of the law and may not have received value for money from the procurement of the goods.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Unconfirmed Status of Fixed Assets

As reported in the prior years, the property, plant and equipment balance of Kshs.252,055,667 is not supported with a fixed assets register to indicate the location, condition and use of the assets, among other details, as stipulated under Section 143 of the Public Finance Management (National Government) Regulations, 2015 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. Further, apart from motor vehicles with a nil net book value, the other assets of the Company with an aggregate net book value of Kshs.252,055,667 were not insured.

Under the circumstances, it could not be confirmed that the assets of the Company had been properly safeguarded.

2. Failure to Use Inventory Management Software

The statement of financial position reflects a balance of Kshs.49,535,596 for inventories. As previously reported, the Company used Pastel Accounting Software to manage its financial and some other operational records. Although the software includes a module for inventory management and control, the Company did not utilize the module. Instead, inventories are managed and controlled manually which is more prone to errors and fraud.

3. Internal Control Weaknesses in Management of Inventory

As previously reported, the store was not segregated from the production unit. The finished goods are stored at the factory awaiting collection or delivery from customers. It was further noted that there were lathe machines that had been ordered by the State Department for Industrialization which had not been collected for over seven (7) years. It is not clear why the State Department had not collected the machines over the years from the Company's factory.

4. Information Technology Internal Controls

The Company had no IT Strategic Committee, IT Strategic Plan and Disaster Recovery Plans. Consequently, and in the absence of the approved IT Strategic and Disaster Recovery Plans, the Company's objectives may not be achieved and sustainability of services and business continuity is threatened.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE LEGAL AND REGULATORY REQUIREMENTS

As required by Companies Act 2015, I report based on audit, that: -

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

- (ii) In my opinion, adequate accounting records have been kept by the Company so as appears from the examination of those records; and,
- (iii) The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements

are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

16 November, 2021

Numerical Machining Complex Ltd

Annual Reports and Financial Statements
For the year ended June 30, 2020

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2020**

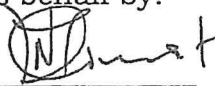
	Note	2019-2020	2018-2019
		Kshs	Kshs
REVENUES			
Revenue	6	69,789,783	63,139,094
Cost of sales	7	(109,315,623)	(46,241,412)
Gross profit		(39,525,840)	16,897,683
Grants from the National Government	8	203,376,113	200,316,317
Other Income	9	1,000	42,175
TOTAL REVENUES		163,851,273	217,256,174
OPERATING EXPENSES			
Administration Costs	10	(164,039,026)	(215,585,523)
Selling and Distribution Costs	11	(8,697,687)	(7,514,414)
TOTAL OPERATING EXPENSES	12	(172,736,713)	(223,099,937)
PROFIT/(LOSS) BEFORE TAXATION		(8,885,440)	(5,843,763)
INCOME TAX EXPENSE/(CREDIT)		0	0
PROFIT/(LOSS) AFTER TAXATION		(8,885,440)	(5,843,763)
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(8,885,440)	(5,843,763)

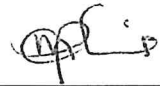
Annual Reports and Financial Statements
For the year ended June 30, 2020


STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE 2020

	Note	2020 Kshs	2019 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	252,055,667	315,094,924
Investment property	14	290,000,000	290,000,000
Total Non-Current Assets		542,055,667	605,094,924
Current Assets			
Inventories	15	49,535,596	92,046,027
Trade and other receivables	16(a)	91,647,641	70,765,601
Bank and cash balances	17	356,464,511	75,381,301
Total Current Assets		497,647,748	238,192,929
TOTAL ASSETS		1,039,703,415	843,287,853
		=====	=====
EQUITY AND LIABILITIES			
Capital and Reserves			
Government grants		1,214,024,646	1,214,024,646
Revaluation reserve		158,993,190	158,993,190
Retained earnings		(1,626,920,066)	(1,575,524,195)
Capital Grants		1,118,991,162	886,288,076
Proposed dividends			-
Capital and Reserves		865,088,932	683,781,717
Non-Current Liabilities			
Total Non-Current Liabilities			-
Current Liabilities			
Trade and other payables	22	174,614,483	159,506,136
Total Current Liabilities		174,614,483	159,506,136
TOTAL EQUITY AND LIABILITIES		1,039,703,415	843,287,853
		=====	=====

The financial statements were approved by the Board on _____ 2020 and signed on its behalf by:


Eng. David Mwadali
Managing Director


CPA Patrick Kariuki
Head of Finance
ICPAK M/No.11770


MGH, EBS.ndc(K), Psc USA Pastor Awiti
Chairman

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital Development Grants/Fund	Total
At July 1, 2018	1,214,024,646	158,993,190	-	(1,569,680,432)	-	900,689,776	704,036,181
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(5,843,763)	-	-	(5,843,763)
Capital/Development grants received during the year	-	-	-	-	-	50,000,000	50,000,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(64,410,701)	(64,410,701)
Dividends paid - 2018	-	-	-	-	-	-	-
Interim dividends paid - 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2019	1,214,024,646	158,993,190	-	(1,575,524,195)	-	886,288,076	683,781,717
At July 1, 2019	1,214,024,646	158,993,190	-	(1,575,524,195)	-	886,288,076	683,781,717
Issue of new share capital	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(8,885,440)	-	-	(8,885,440)

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

Capital/Development grants received during the year	-	-	-	-	-	297,400,000	297,400,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(64,696,914)	(64,696,914)
Dividends paid - 2019	-	-	-	-	-	-	-
Revaluation on Inventory (Note 15)	-	-	-	(42,510,431)	-	-	(42,510,431)
Interim dividends paid - 2020	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2020	1,214,024,646	158,993,190	0	(1,626,920,066)	0	1,118,991,162	865,088,932

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020 Kshs	2018-2019 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	23	50,587,612	57,956,820
Net cash generated from/(used in) operating activities		50,587,612	57,956,820
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(2,207,489)	(10,343,974)
Net cash generated from/(used in) investing activities		(2,207,489)	(10,343,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in capital grants		232,703,087	(14,410,701)
<i>(See the movement in statement of changes in Equity)</i>			
Net cash generated from/(used in) financing activities		232,703,087	(14,410,701)
INCREASE IN CASH AND CASH EQUIVALENTS		281,084,275	33,202,145
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		75,381,301	42,179,156
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	356,464,511	75,381,301

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Percentage Variation
	2019-2020 Kshs '000'	2019-2020 Kshs '000'	2019-2020 Kshs '000'	2019-2020 Kshs '000'	2019-2020 Kshs '000'	
Revenue						
Sale of goods	333,600	(73,600)	260,000	69,790	(190,210)	(73%)
Transfers from the Government	138,679	-	138,679	138,679		
Other income-Deferred & Miscellaneous	81,900	-	81,900	64,698	(17,202)	(21%)
Total income	554,179	(73,600)	480,579	273,167	(207,412)	
Expenses						
Compensation of employees	162,221	(24,170)	138,051	141,028	(2,977)	2%
Use of goods and services	177,909	(37,010)	140,899	31,419	109,480	78%
Other payments	211,346	(13,500)	197,846	109,604	88,242	45%
Total expenditure	551,476	(74,680)	476,796	282,051	194,745	
Surplus for the period	2,703	1,080	3,783	(8,884)	12,667	

1. Sale of goods

The company did not achieve 73% of the projected revenues. These revenues were to be generated from diversified product lines. This was affected by cash inflow inadequacy and difficulties in getting production inputs as a result of delays caused by the impact of the COVID -19 pandemic.

2. Other Income and Deferred Income.

Deferred income realised from depreciation of assets bought through development grant (IAS 20). The total development funds were received toward the end of fourth quarter therefore the acquisition of capital items for 2019/20 was still in progress thus we did not achieved projected deferred income.

3. Use of goods and service.

Production materials consumed during the year gave a variance of 78%. This variance was attributed by the low level of production.

4. Other payments

The amounts projected to be spent on other payments could not be achieved, indicating a variance of 45%. These amounts had been projected basing on the sales target which was not met. This in effect means that some of expenses projected could not be incurred and were deferred to future periods.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Numerical Machining Complex Ltd is established by and derives its authority and accountability from the Companies Act. The company 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 company'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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
<i>IFRS 16: Leases</i> <i>Issue date February 2018</i>	Effective for annual periods beginning on or after 1 January 2019	The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires 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 is required to recognise a right-of-use asset representing its right to use the

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
		<p>underlying leased asset and a lease liability representing its obligation to make lease payments. Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>
<p><i>IFRIC 23: Uncertainty Over income tax treatments</i></p>		<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>
<p><i>Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2020</p>	<p>The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>
<p><i>Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2020</p>	<p>The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>
<p>Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.</p>	<p>Effective for annual periods beginning on or after 1 January 2020</p>	<p>The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
Amendments to IFRS 11 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017	Effective for annual periods beginning on or after 1 January 2020	The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests <i>The standard is not relevant to NMC Ltd for FY 2019/20)</i>
Amendments to IAS 12 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017	Effective for annual periods beginning on or after 1 January 2020	The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked. <i>The standard is not relevant to NMC Ltd for FY 2019/20)</i>
Amendments to IAS 23 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017	Effective for annual periods beginning on or after 1 January 2020	The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets. <i>The standard is not relevant to NMC Ltd for FY 2019/20)</i>
Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)	Effective for annual periods beginning on or after 1 January 2020	The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard. <i>The standard is not relevant to NMC Ltd for FY 2019/20)</i>

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
Amendments to IAS 1 and IAS 8 Definition of material	Effective for annual periods beginning on or after 1 January 2020	<p>The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>

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

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.</p> <p><i>(The standard is not relevant to NMC Ltd for FY 2019/20)</i></p>

Annual Reports and Financial Statements
For the year ended June 30, 2020

Amendment/Interpretation to a standard	Effective date	Impact (The standard is not relevant to NMC Ltd for FY 2019/20)
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021. <i>(The standard is not relevant to NMC Ltd for FY 2019/20)</i>
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019)</i>	Annual periods beginning on or after 1 January 2020	Together with the revised <i>Conceptual Framework</i> published in March 2019, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> . The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i> . Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i> . <i>The standard is not relevant to NMC Ltd for FY 2019/20)</i>

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

iii) Early adoption of standards

The company did not adopt any new or amended standards in year 2019/2020.

i) 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

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 sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) 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.

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

Intangible assets comprise purchased computer software licenses, 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.

f) 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.

g) Investment property

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

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.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l) 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 moving average price method.

m) Trade and other receivables

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

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) 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 the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

q) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) 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.

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The original budget for FY 2019-2020 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 Numerical Machining Complex didn't recorded additional appropriations of on the 2019-2020 budget.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (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.

v) Comparative figures

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

w) 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, 2020.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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.

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

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 16(c).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2019/2020	2018/2019
	Kshs	Kshs
Manufacture of Machine tools	1,493,830	1,975,372
Casting of ferrous foundry products		4,627,369
Manufacture of general spares & Components	49,170,424	25,940,509
General Fabrication	11,880,108	12,386,977
Training & Sale of Engineering software	11,052,880	10,483,186
Engineering Services		78,939
Gross sales of goods	80,137,028	73,270,701
Less: Value added tax on gross sales	(10,347,245)	(10,131,607)
Total	69,789,783	63,139,094

7 COST OF SALES

	2019/2020	2018/2019
	Kshs	Kshs
Cost of sales on goods	31,418,732	46,241,412
Cost of sales-Direct labour	71,077,655	-
Cost of sales on services-Electricity	6,819,236	
Total	109,315,623	46,241,412

8 GRANTS FROM NATIONAL GOVERNMENT

	2019/2020	2018/2019
	Kshs	Kshs
Recurrent grants received	138,679,200	135,905,616
Capital grants realized (see note below)	64,696,913	64,410,701
In Kind contributions/ donations		-
Total	203,376,113	200,316,317

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2018-2019 KShs
Ministry of Industry, Trade & Enterprise Development	138,679,200	64,696,913	297,400,000	436,079,200	185,905,616
Total	138,679,200	64,696,913	297,400,000	436,079,200	185,905,616

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

	2019-2020	2018- 2019
Description	Kshs	Kshs
Sale of tender documents	1,000	
Other miscellaneous receipts	0	42,175
Total	1,000	42,175

10 (a) ADMINISTRATION COSTS

	2019-2020	2018- 2019
Description	Kshs	Kshs
Staff costs (note 10b)	63,872,660	112,074,049
Directors' emoluments	5,117,378	6,269,787
Electricity and water	0	10,694,769
Communication services and supplies	1,029,266	1,140,226
Transportation, travelling and subsistence	1,473,130	1,168,165
Advertising, printing, stationery and photocopying	382,883	568,483
Staff training expenses	626,350	1,003,063
Hospitality supplies and services	1,562,524	1,547,069
Insurance costs	737,684	734,419
Staff medical costs	2,341,628	0
Bank charges and commissions	523,711	412,416
Office and general supplies and services	2,484,802	2,250,926
Auditors' remuneration	698,640	696,000
Legal fees	2,616,427	122,790
Consultancy fees	0	1,165,557
Repairs and maintenance	2,609,143	2,734,675
Provision for bad and doubtful debts	2,113,440	628,507
Depreciation	65,246,745	64,960,533
Other operating expenses	10,602,615	7,414,089
Total	164,039,026	215,585,523

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (b) STAFF COSTS

Salaries and allowances of permanent employees	124,917,847	101,694,013
Wages of temporary employees	211,884	2,311,183
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	289,200	270,600
Other pension contributions	7,768,241	6,315,693
Leave pay and gratuity provisions	1,215,524	1,140,061
Staff welfare	547,618	342,500
Sub-Total	134,950,314	112,074,049
Less: Direct Labour	(71,077,654)	
TOTAL	63,872,660	
The average number of employees at the end of the year was:		
Permanent employees – Management	11	9
Permanent employees – Unionisable	106	107
Temporary and contracted employees	11	3
Total	128	119

11 SELLING AND DISTRIBUTION COSTS

	2019-2020	2018- 2019
Description	Kshs	Kshs
Salaries and wages of sales personnel	6,077,671	5,460,518
Marketing and promotional expenses	2,620,016	2,053,896
Total	8,697,687	7,514,414

12 OPERATING PROFIT/(LOSS)

	2019- 2020	2018- 2019
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	63,872,660	
Selling and distribution Expenses	8,697,687	7,514,414
Other Administration costs	26,990,163	30,956,647
Depreciation of property, plant and equipment		64,960,533
Provision for bad and doubtful debts	2,113,440	628,507
Directors' emoluments - fees	3,680,374	4,623,236
- other	1,437,004	1,646,551
Auditors' remuneration - current year fees	698,640	696,000
Total	172,736,713	223,099,937

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT

2020	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION							
At July 1, 2019	59,294,829	1,197,523,783	27,181,661	69,219,897	9,377,363	11,076,103	1,373,673,636
Additions		1,714,989		492,500			2,207,489
Transfers							
Disposals							
At June 30, 2020	59,294,829	1,199,238,772	27,181,661	69,712,397	9,377,363	11,076,103	1,375,881,125
DEPRECIATION							
At July 1, 2019	20,258,467	933,718,438	27,181,661	69,081,626	8,338,520	-	1,058,578,712
Charge for the year	1,185,897	63,323,393		276,107	461,349		65,246,746
Impairment loss							
Eliminated on disposal							
At June 30, 2020	21,444,364	977,041,831	27,181,661	69,357,733	8,799,869	0	1,123,825,458
NET BOOK VALUE At June 30, 2020	37,850,465	202,196,941	0	354,664	577,494	11,076,103	252,055,667

2019	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION							
At July 1, 2018	59,263,289	1,183,525,548	27,181,661	69,140,897	9,377,363	14,840,903	1,363,329,662
Additions	31,540	13,998,234	-	79,000	-	-	14,108,774
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(3,764,800)	(3,764,800)
At June 30, 2019	59,294,829	1,197,523,783	27,181,661	69,219,897	9,377,363	11,076,103	1,373,673,636
DEPRECIATION							
At July 1, 2018	19,072,570	870,609,417	27,181,661	68,913,233	7,841,298	-	993,618,180
Charge for the year	1,185,897	63,109,020	-	168,393	497,222	-	64,960,532
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
At June 30, 2019	20,258,467	933,718,438	27,181,661	69,081,626	8,338,520	-	1,058,578,712
NET BOOK VALUE At June 30, 2019	39,036,362	263,805,345	-	138,271	1,038,843	11,076,103	315,094,924

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

	Cost or Valuation	Normal Annual depreciation charge
Plant and machinery	692,593,832	86,574,229
Motor vehicles, including motor cycles	27,181,161	5,436,232
Computers and related equipment	68,884,077	22,938,398
Furniture and Fittings	5,686,579	710,822
	794,345,649	115,659,681
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INVESTMENT PROPERTY

	2019-2020	2018-2019
	Kshs	Kshs
Opening valuation	290,000,000	290,000,000
Movements during the year		
Closing valuation	290,000,00	290,000,000
	=====	=====
DEPRECIATION (IF AT COST)		
At June 30		-
	=====	=====
NET BOOK VALUE		
At June 30	290,000,00	290,000,000
	=====	=====

The company has an investment of 703.59 Hectares of Land at Athi River. Out of this a total of 242.89 Hectares has been sold leaving a balance of 460.70 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.

15 INVENTORIES

	2019-2020	2018-2019
	Kshs	Kshs
CNC Engineering stores	28,079,854	82,763,316
Foundry Engineering stores	20,200,912	8,025,567
Stationery and general stores	1,254,830	1,257,144
	=====	=====
	49,535,596	92,046,027
	=====	=====

The inventory had been over valued for a number of year. Revaluation has been undertaken in FY2019/2020 and revaluation amount charged on reserves to comply with IAS 2.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 (a) TRADE AND OTHER RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Trade receivables (note 16 (b))	75,085,243	76,065,539
Deposits and prepayments	29,955,716	4,917,251
VAT recoverable	2,631,310	3,072,633
Staff receivables (note 16 (d))	2,857,021	3,478,388
Other receivables	6,753,214	6,753,215
Gross trade and other receivables	117,282,504	94,287,025
Provision for bad and doubtful receivable	(25,634,863)	(23,521,424)
Net trade and other receivables	91,647,641	70,765,601
	=====	=====

16 (b) TRADE RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Gross trade receivables	75,085,243	76,065,539
Provision for doubtful receivables	(25,634,863)	(23,521,424)
	49,450,380	52,544,415
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	4,282,303	2,945,784
Between 30 and 60 days	24,645,560	604,753
Between 61 and 90 days	(18,108,828)	501,817
Between 91 and 120 days	555,453	450,938
Over 120 days	63,710,755	71,562,247
	75,085,243	76,065,539
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 (c) PROVISION FOR BAD AND DOUBTFUL DEBTS

PROVISION FOR BAD BEBTS	2020	2019
	KSHS	KSHS
Debts balance As At 30.06.2020	75,085,243	76,065,539
Less:		
Specific Provisions	(22,249,733)	(20,073,156)
	52,835,510	55,992,383
Specific Provision Debts over six Years	22,249,733	20,073,156
General Provision-2% of 52,835,510	1,056,710	1,119,848
	23,306,443	21,193,004
	(21,193,004)	(20,564,496)
Decrease or increase in provision for bad debts	2,113,440	628,507
Provision for bad debts 2018/2019	23,521,424	22,892,916
Less/Add: Decrease in bad debts	2,113,440	628,507
	25,634,863	23,521,424

16 (d) STAFF RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Gross staff loans and advances	2,857,021	3,478,388
Provision for impairment loss	(1,891,954)	(2,009,614)
Less: Amounts due within one year	(965,067)	(1,468,773)
Amounts due after one year	-	-
	=====	=====

17 BANK AND CASH BALANCES

	2019-2020	2018-2019
	Kshs	Kshs
Cash at bank	356,352,897	75,381,301
Cash in hand	111,614	0
	<u>356,464,511</u>	<u>75,381,301</u>
	=====	=====

The cash was held at KCB Bank group the company's main banker

Financial Institutions	Account Number	2019-2020 Kshs.	2018/2019 Kshs.
KCB Bank Ltd	1107169453	3,121,303	23,713,252
KCB Bank Ltd	1127662244	350,455,050	51,668,049
KCB Bank Ltd	1271475049	2,888,158	-
Total		356,464,511	75,381,301

18 ORDINARY SHARE CAPITAL

	2019-2020	2018-2019
	Kshs	Kshs
Authorised:		
75,000,000 ordinary shares of Kshs.10 par value each	750,000,000	750,000,000
	=====	=====
Issued and fully paid:		
75,000,000 ordinary shares of Kshs. par value each	-	-
	=====	=====

The share are owned by 2 entities i.e. Kenya Railways Corporation and University of Nairobi consisting of 38,250,000 and 36,750,000 shares respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

20 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

21 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

22 TRADE AND OTHER PAYABLES

	2019-2020	2018-2019
	Kshs	Kshs
Trade payables	29,366,758	19,264,327
Accrued expenses	77,403,451	72,896,121
Other payables	67,844,274	67,345,688
	174,614,483	159,506,136
	=====	=====

23 NOTES TO THE STATEMENT OF CASH FLOWS

	2019-2020	2018-2019
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating loss	(8,885,440)	(5,843,763)
Depreciation	65,246,746	64,960,533
Amortisation	0	-
Inventory revaluation	(42,510,431)	
(Gain)/loss on disposal of property, plant and equipment	0	-
Operating profit/(loss) before working capital changes	13,850,875	59,116,770
Decrease in inventories	42,510,430	(3,078,070)
Increase in trade and other receivables	(20,882,040)	27,517,571
Increase in trade and other payables	15,108,347	(25,599,451)
Increase/(decrease) in retirement benefit obligations	0	-
Increase/(decrease) in provision for staff leave pay	0	-
Cash generated from/(used in) operations	50,587,612	57,956,819
	=====	=====
(c) Analysis of cash and cash equivalents		
Short term deposits		-
Cash at bank	356,464,511	75,381,301
Cash in hand		-
Balance at end of the year	356,464,511	75,381,301
	=====	=====

24 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of Numerical Machining Complex Ltd holding 100% through 49% by University of Nairobi and Kenya Railways Corporation. Other related parties include:

Other related parties include:

- i) Ministry of Industry Trade and Cooperatives
- ii) Key management;
- iii) Board of directors;

25 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2019-2020	2018-2019
	Kshs	Kshs
Amounts authorised and contracted for	297,400,000	50,000,000
Amounts authorizes but not contracted for	-	-
Less: Amounts included in Work in progress	-	-
	297,400,000	50,000,00
	=====	=====

26 CONTINGENT LIABILITIES

	2019-2020	2018-2019
	Kshs	Kshs
Disputed tax penalties	57,782,747	57,782,747
	_____	_____
	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. In their assessment, KRA tax audit had given a total tax payable of Kshs. 57,782,747. KRA agreed to schedule another audit for NMC tax liabilities to clear the matter.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. 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 only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. 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 carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

27 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2020				
Trade Receivable	75,085,243	11,374,488	63,710,754	(25,634,863)
Bank balances	356,464,511	356,464,511	-	-
Total	431,549,754	367,838,999	63,710,754	(25,634,863)
At 30 June 2019				
Trade Receivable	52,544,115	4,503,292	71,562,247	(23,521,424)
Bank balances	75,381,301	75,381,301	-	-
Total	127,925,416	79,884,593	71,562,247	(23,521,424)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from trade receivables

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

27 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Trade payables	11,895,469	759,041	16,712,427	29,366,937
Total	11,895,469	759,041	16,712,427	29,366,937
At 30 June 2019				
Trade payables	1,785,284	59,169	17,419,873	19,264,327
Total	1,785,284	59,169	17,419,873	19,264,327

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

27 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company did not have any interest borrowing in the current finance period hence no exposure to interest rate risks.

28 INCORPORATION

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

29 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

30 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: 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 with 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.	Lack of land Valuation, Issuance of title for sold land	<p>The resurveying and securing of the parcel had been halted by court cases since 2010. However, a ruling made on 29th March 2019 in favor of NMC has granted permission for the said activities.</p> <p>NMC Has budgeted in FY2019/2020 for valuation of the property so that the actual value can be determined</p> <p>Processing of title deeds is currently underway and several titles have been issued to rightful owners of the sold parcels of land.</p> <p>A cabinet memo to install beacons, secure the parcel of land & remove squatters and revalue the investment property is in progress.</p>	Board of Directors/MD	On-going	June 2021

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2.	Long outstanding Tax Payable	<p>The management has been working closely with KRA to ensure the issue is amicably settled. A review of NMC tax position was to be conducted by KRA and recommendations sort to address writing off of the long outstanding.</p> <p>The tax was estimates in 2014 and the audit team that did the assessment has since been moved. Our account has also been moved from Times tower to Sameer Park and currently at CBC Centre –Public sector division where our ITax is clean and TCC issued</p>	MD/Finance Manager	In-Progress	June 2021
3.	Trade Receivables	<p>The statement of financial position as at 30 June, 2020 reflects a figure of Kshs 75,085,243 for Trade and other Receivables. The following anomalies were noted;</p> <ol style="list-style-type: none"> 1. Reconciliation of the account is in progress to establish the actual balances of the debtors 2. The management is in the process of compiling a report to table to the Board of Directors in order to have the amounts written off as per section 148 of the PFM Regulations. 3. Measures have been put in place to ensure the credit limits of 60 days for customers are adhered to. 	Finance manager	In-Progress	June 2021
4.	Unconfirmed status of fixed Assets	<p>The management has taken measures to have a fixed asset register with a list of assets together with their location being identified. Further actions that the management intends to take are to include valuation of all assets to ascertain their fair market values.</p>	Finance Manager	In-Progress	June 2021

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5.	Trade and Others Payables	<p>Debts of Kshs. 144,475,469 which have been outstanding for so long</p> <p>This includes a figure of Tax payable of Kshs. 57,782,747 which is dispute and being reassessed by KRA. Additionally there is a figure includes accrued tax on gratuity which require reconciliation of Kshs. 54,416,621</p>	Finance Manager	In-Progress	June 2021
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Managing Director

Date.....


Chairman of the Board

Date.....