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REPORT

OF

THE AUDITOR-GENERAL

ON

EAST AFRICAN PORTLAND CEMENT PLC

FOR THE YEAR ENDED
30 JUNE, 2020

EAST AFRICAN PORTLAND CEMENT PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020



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DIRECTORS	<p>Edwin Muriithi Kinyua, MBS Simon Peter Ole Nkeri</p> <p>Kungu Gatabaki Prof. Sarone Ole Sena Hon. (Amb) Ukur Yatani, EGH</p> <p>National Social Security Fund (NSSF)</p> <p>Dr. Francis Otieno Owino</p>	<p>Chairman Managing Director – retired on 4 August 2019</p> <p>Cabinet Secretary, National Treasury Alternate Director- Humphrey Muhu (Alternate Director – Edward Wamweya) (Represented by Dr. Anthony Omerikwa) (Alternate Director – Moses Cheseto) Principal Secretary, State Department of Industrialization, Ministry of Industry, Trade and Enterprise development (Alternate Director – Nicholas M. Kamau) (Alternate Director- Charles Mahinda)</p>
SECRETARY	<p>Jane Joram Certified Public Secretary (Kenya) P. O. Box 40101 - 00100 Nairobi</p>	
REGISTERED OFFICE	<p>L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 – 00100 Nairobi</p>	
REGISTRARS	<p>Haki Registrars P. O. Box 40868 – 00100 Nairobi</p>	
BANKERS	<p>KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 30081 – 00100, Nairobi</p> <p>Citibank, N.A, P. O. Box 30711 – 00100, Nairobi</p> <p>Stanbic Bank Limited Kimathi Street P. O. Box 30550 - 00100 Nairobi</p> <p>Equity Bank Limited Kenyatta Avenue P. O. Box 104860 – 00100, Nairobi</p>	<p>Standard Chartered Bank Kenya Kenyatta Avenue P. O. Box 30003 – 00100, Nairobi</p> <p>Co-operative Bank of Kenya Limited P. O. Box 321 – 00204, Athi River</p> <p>Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 711, Kampala</p> <p>KCB Bank Uganda Limited 6th Street Industrial Area P. O. Box 28568 Kampala</p>
PRINCIPAL AUDITOR	<p>The Auditor General Anniversary Towers P. O. Box 30084 – 00100 Nairobi</p>	
DELEGATED AUDITOR	<p>PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/ Chiromo Road, Westlands P O Box 43963 – 00100, Nairobi</p>	

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended June 30, 2020.

Economic Outlook

The Country registered 5.4% growth in GDP in 2019 as a result of a relatively stable macroeconomic environment boosted by positive investor confidence. Despite most sectors recording decelerated growths, the economy was supported by accelerated growths in the financial and real estate sectors. Supply and demand shocks experienced in 2020 on account of COVID – 19 pandemic containment measures coupled with locust attacks and projected suboptimal rainfall threaten to derail GDP growth to a projected 1.5% by the end of the year 2020. Prolonged effects of the containment measures adopted by the Government of Kenya are expected to be countered by the Post COVID Economic Recovery Strategy (PC – ERS) that is the cornerstone of the 2021 – 22 National Government budget. These measures, if successful, will reposition the country into recovery through a projected 5.2% GDP growth in 2021.

Cement Market and Competition

The construction sector growth declined marginally to 6.4% in 2019 from a revised growth of 6.9% recorded in 2018. Effects of excess installed capacity were evident through heightened competition in the cement industry as firms jostled to retain market share. Encroachment by vertically integrated construction materials manufacturers will continue to put price pressure in the medium term as cement gradually moves into complementary good territory.

Performance

The business was constrained by increased competition driven by improved production capacities leading to market penetration and retention strategies evidenced by price wars. Declining consumer purchasing power as a result of COVID – 19 containment measures further exacerbated an already inhibited trading environment. Consequently, net revenue reduced by 13% over prior year. These challenges notwithstanding, the company embarked on a cost rationalisation programme designed to align fixed costs with current output. The Company has also drawn lessons from its rich heritage in the sector by redesigning its route to market to better serve emerging needs of our stakeholders.

Dividend

The directors have not recommended a dividend in the current year.

Our Focus

The Board reiterates its commitment to turn around the fortunes of the Company by leveraging on its ownership structure and strong balance sheet through;

- (i) Recapitalization of the Business
- (ii) Cost leadership
- (iii) Partnership with the government in delivering housing and infrastructure requirement

Corporate Strategy

The Company embarked on implementation of its turnaround plan which covers the period 2018/19 to 2023/24 geared towards optimizing production efficiency, lowering fixed and operational costs, balance sheet restructuring through unlocking working capital and ultimately increasing all stakeholders value leveraging on its strong balance sheet. This plan is predicated upon sale of fully mined idle land in order to achieve key strategic initiatives listed below:

1. Reduction of fixed overheads through Organization restructuring and staff rationalization
2. Improvement of plant operating efficiencies through a structured refurbishment
3. Reduction of high fixed finance costs and debt by retirement of obligations
4. Restoration of effective trading relations upon availability of required working capital

The Company commenced the process of reducing the high fixed staff costs through staff rationalization programme with more than half of the current workforce aligned to the new organizational structure.

The final phase of the programme will conclude in the next financial year resulting in further reductions in overhead costs and improved staff productivity.

Following shareholder approval through the Extraordinary General Meeting held on 27th September 2019, disposal of properties bearing a legal charge as security against facilities advanced by Kenya Commercial Bank is underway. The properties were valued at 12 billion and is enough to cover the outstanding debt of 7.4 billion which includes bank overdraft, term loans, post import finance, insurance premium financing, letters of credit and guarantees.

Financing Strategy

Implementation of the Company's strategic plans depends on the availability of financing from the disposal of its idle assets. The Board remains well apprised through the Board Finance Committee and will continue to pursue all avenues to ensure realization of its turnaround plans.

Corporate Governance

The company continues to believe in the importance of good governance and sees it as imperative to our business at all levels. The Board of Directors is served by four Board Committees with properly set out terms of reference. All the directors, except the Managing Director, are independent, and meet regularly with senior management to review the effectiveness and appropriateness of the corporate strategy. The Board has in place a charter which contributes in guiding the interaction between the Board and other stakeholders. The business code of ethics emphasizes the need for each employee to fully understand corporate behaviour expectations, compliance with work ethics and regulatory expectations. We will continue to identify with and share best practice across the entire company structure.

The Board

As I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year, we look forward to their contribution in the foreseeable future.

Appreciation

On behalf of the Board of Directors, I would like to extend my sincere gratitude to you shareholders for the support you have continued to provide to your Company. I would also like to recognise the contribution of the Board for their foresight and dedication to the Company especially at the onset of the Restructuring Process; and to the Management for its resilience at very difficult moments. Lastly, I would like to extend my gratitude to all our business partners and customers for their loyalty and unwavering support.



Edwin M Kinyua, MBS
Chairman of the Board of Directors

Business Overview

This is the second year of implementation of tangible turnaround initiatives the Company put in place geared towards addressing sustainability-related challenges that have threatened the going concern of the Company in the past years. The reporting period was characterized with a myriad of both operating and industry-based challenges that not only impacted negatively on sales revenues but also on cost of sales and overall productivity of the Company. Containment measures as a result of COVID – 19 pandemic further eroded consumer purchasing power resulting in a cement consumption plateau. This coincided with disruptions in the international supply chains thereby resulting in delayed procurement of critical plant inputs aggravating operational efficiency challenges.

The key notable challenges in the period included running the business with a deteriorated plant health that continued to constrain the Company's capacity utilization and product availability in the backdrop of high fixed operating costs relative to low productivity. The Company sales revenues were squeezed by low sales volumes on account of diminished market share, driven by intensified competition characterized with intense price war consequently impacting on the top line. The business further suffered from high finance costs driven by high level of legacy debt from the main financiers. The above factors constrained the Company's capacity to mine from its brand equity rendering the business uncompetitive.

In its pursuit to address these challenges, the Company through the support of the National Government, embarked on restructuring programs to align the cost structure of the Company to its productivity. These strategic programs include staff cost restructuring, retirement of expensive legacy loans, plant refurbishment and control of both energy and operating costs. The production process is planned to be optimized through an improvement program on automation, outsourcing of non-core operations and enhanced connection between people, machinery and processes. The Company plans to restructure its route to market in an effort to recapture part of the lost market share to support the top line of the business. Though mouthful, Management and the Board of Directors are determined to actualize the highlighted programs within the tight industry environment to reposition the Company back to its lost glory.

The Board of Directors and Management plan to embark on a risk-based cost of sales surgery and repositioning of market share, all aimed at delivering profitability in the current operating environment. The outcomes are expected to show up in the recovery of the Company.

Business Performance

Overall, the Company realized a decline in revenue of 13% owing to increased competition with downward pressure on retail prices due to supply glut. Cost of sales reduced by 19% over the same period last year on account of the reduced volumes and impact of staff rationalization. Consequently, these factors led to improvement of the gross loss position to 825 million in the year compared to 1.2 billion in the prior year.

General operating expenses for the Group and the Company increased by 3% during the period. The increase was impacted by restructuring cost of Kshs 328 million incurred in the period, with an additional Kshs 429 million charged for the final phase of the ongoing restructuring programme.

The Company reported a loss before tax of Kshs 2.80 billion in the year compared to a loss of Kshs 2.96 billion in the previous year. This included a gain of Kshs 1.1 billion from revaluation of investment property. There was no revaluation gain in the prior year.

The investment property, consisting of three parcels of land in Athi River has continued to suffer from encumbrances by invaders who continue to pose a risk to realization of value. Disposal of these parcels form the main pillar of the Company's turnaround efforts and the Company has sought support from the National Government in the eviction of invaders. The invaders in addition to depressing the gains made on the valuations persistently continue to hamper the Company's access to the adjacent quarries thereby depriving it of essential raw materials.

Staff Rationalization Program

As part of the Company turnaround efforts, the Company has embarked on a staff rationalization program aimed at aligning manpower costs with current productivity levels to convert to a variable model of manpower resourcing of the Company operations. This is being done on a phased approach in tandem with the speed of balance sheet restructuring process, which is hinged on a rather lengthy process. The process is being executed within the provisions of the Employment Act 2007 and provisions of the Collective Bargaining Agreement in recognition of the applicable legislation on redundancy. As a result of the restructuring program, all positions in the Company were declared redundant, jobs and structures reconfigured in terms of job consolidation and enrichment to realize a lean organizational structure. Employees shall be encouraged to apply for the available job positions in the new structure to sustain the tacit knowledge necessary for continuity of business operations. The program aims at reducing the headcount, earning levels per person and enhancement of productivity per person.

Corporate Strategy

The Company is pursuing a corporate strategy of restructuring its balance sheet and finances to raise the required working capital for the business and retire expensive legacy indebtedness. This strategic initiative is aimed at spurring productivity and cushioning the business from endemic finance costs hence the profitability of the business.

The ongoing cost rationalization shall also result in the alignment of the various business strengths to profitability of the Company.

Customer Value Proposition

The Company purposes to leverage on the strategic customer value proposition of "Quality, Availability, and Consistency at a competitive price" in recognition of the criticality of a delighted customer as the fulcrum to its recovery programs. This value proposition is an integration of application of the core value system and business perspectives in delivering a delighted customer and profitability.

Risk Management

The Company's operations and earnings are subject to various risks related to the changing competitive, economic, political, legal, social, industry, business, and financial conditions. These risks expose the Company to real threats of financial and non-financial loss. Some of these risks include credit risk, price risk, liquidity risk, foreign currency risk, and interest rate risk. Given the regional operations, the Company is also faced with Country risk.

The Company's overall risk management program focuses on effective mitigation of the various risks and seeks to minimize potential adverse effects on corporate performance using a variety of techniques. These include credit assessment and bank guarantees for the major accounts' receivables, price surveys in the market to confirm the appropriateness of prices charged and/or paid, hedging of Forex exposure and review of our foreign operations to adopt the best business model. Management continues to carry out assessments to evaluate effectiveness of mitigating factors of the various risk types towards realization of the Company strategies towards achievement of corporate objectives.

The Company also takes a risk-based approach when designing, evaluating and monitoring the internal control environment. There are procedures designed to ensure business objectives are realized and ensure business continuity in case of process failures. Related requirements are set out in the Corporate Risk Management Manual and Business Continuity Plan. The manual describes the methodology to be followed to manage risks and the risk-based standards that provide a common approach to enterprise-wide risks. The Business Continuity Plan establishes alternatives to normal established processes in instances of process failures.

The Company has established mechanisms that allow the Board, through the Board Audit Committee, to regularly consider the overall effectiveness of the internal control system in mitigating risks that the business face from time to time.

The Company has also put in place whistleblowing measures to discourage corrupt and unethical practices among its employees. This is designed to guarantee the safety and well-being of the Company's resources and assets.

Corporate Social Responsibility

The Group has continuously recognized the strategic nature of its Corporate Social Investment and the role it has played on its business. The Company has retained its engagement with the communities and various stakeholders that interplay in the discharge of business. During the reporting period, the Company invested in various projects around thematic areas of education, health, water, and environmental conservation. The Company has put these efforts together to aid in assisting the surrounding communities improve the quality of life and appreciate the coexistence upheld by the stakeholders. The Company upholds the principle of responsible corporate citizenship and believes to be obligated to impact the said communities and neighborhood. This has worked for us as a Company to create a mutual relationship with the Communities we work with.

Safety, Health, and Environment


EAPC Plc recognizes the criticality of Safety and Health practices in the workplace, demonstrated by the continuous application of OHSAS management system. The Company believes that through good safety performance, other performances in quality, plant reliability, competitiveness, and profitability will consequently improve. The safety structures inbuilt in the various processes, forms an integral hazard assessment and control program, resulting in the reduction of work-related incidents and ill health.

Outlook

The company will leverage its ownership structure to partner with the National Government in securing to deliver its promise of affordable housing and infrastructure to Kenyans. This is expected to offer a niche market to the company which will be pivotal to its pursuit to recapture its market share. This coupled with the cost rationalization program and optimization of plant operations is expected to make the business return to profitability. It is expected that the balance sheet restructuring shall be completed in the financial year 2020/21 and that this shall reposition the Company to competitively deliver its mandate to shareholders and other stakeholders. Major emphasis shall continue to be placed on cost rationalization and efficient use of plant and working capital resources.

I would like to thank our customers, shareholders and all our stakeholders for the support and patience with the Company in the period characterized by challenges in the turnaround process, together with our staff for their tremendous efforts during the year. I am confident that in this coming year and in the future, we shall reflect on how we did overcome the past challenges. We believe that we shall continue nudging on the corporate strategy to align even closer to market dynamics as a base to innovatively building sustainability in the business.

Thank you.



Stephen Kyalo Nthei
Ag. Managing Director

Introduction

The Group continues to uphold high standards of corporate governance in order to enhance and protect value and ensure the sustainability of the business. The Board of Directors seeks to discharge its duties and responsibilities in the best interests of the Company, its shareholders, customers, suppliers, financiers, the Government and the wider community.

Compliance statement

The Company is guided by the Capital Markets Authority Guidelines on Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Public Officer Ethics Act, 2003, other laws relevant to its operations, the '*Mwongozo*' Code of Governance for State Corporations and other best practice principles as contained in the Board Charter.

Responsibilities of the Board

The primary role of the Board is to provide leadership and strategic direction to the Company to enhance shareholder value. Its main responsibilities are the establishment of strategy and general policy, ensuring preparation of statutory financial statements, reviewing and monitoring the performance of the Company and of senior Management and ensuring that there are adequate internal controls to ensure business continuity. The Board has delegated authority for the conduct of day to day business to the Managing Director and the Management Committee. The Board of Directors has access to the Company Secretary as well as timely and relevant information from Management to discharge its duties effectively. Directors are also empowered to seek independent professional advice on Company affairs at its expense where necessary.

The Composition of the Board is set out on page 2.

The Board is made up of the Chairman, Managing Director and four non-executive directors. The non-executive directors are independent of management and are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering the company's business and operations. The directors are advised of the legal, regulatory and other obligations of a director of a listed company. The directors' responsibilities are set out in the Statement of Directors Responsibilities section.

The Board meets regularly, and directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

The roles of the Chairman and the Managing Director are clearly defined and have been approved by the Board.

The Board members have a wide range of skills and experience and each brings an independent judgment and considerable knowledge to the Board discussions. The Board recognizes that at the core of the corporate governance system, it is ultimately accountable and responsible for the performance and affairs of the Company. Towards this end, the directors in fulfilment of their fiduciary duty act always in the best interest of the Company and shareholders. The Board understands the significance of corporate governance and continuously strives to provide competitive strategic leadership.

The Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya. She supports the Board on procedural and regulatory matters while ensuring the Company adheres to the Board policies and procedures.

The following table shows the number of Board meetings held during the year and the attendance of individual directors.

Director	Board Schedule	Board (special)	EGM
Chairman – Edwin Kinyua	4	45	1
Managing Director	4	50	1
CS Treasury or his alternate	4	29	1
PS Ministry of Industry, Trade & Enterprise development	4	15	1
NSSF	4	19	1
Kungu Gatabaki	4	50	1
Professor Sarone ole Sena	4	46	1
Company Secretary	4	50	1

Fifty-five board meetings were held during the year.

The Board is of the opinion that there is a balance between independent executive and non-executive directors as required by the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

Delegation of Authority

Board Sub Committees

The Board has four Sub Committees with specific delegated authorities. These are the Audit, Finance, Technical and the Human Resources Committee & Remuneration Committees while Management has an Executive Management Committee

The Board Committees assist the Board in discharging its responsibilities. The Committees have clearly defined roles and terms of reference that have been approved by the Board. The Committees are chaired by non-executive directors.

Details of these committees and membership are shown below.

Audit Committee

The Committee reviews quarterly, half year and annual financial statements, external audit plans, audit findings, internal audit and operations and findings and risks affecting the Company. External auditors have unrestricted access to the Managing Director and Chairman of Audit Committee.

The members of the Committee are:

Director

Dr. Anthony Omerikwa (representing NSSF)	Chairman
Kungu Gatabaki	
CS, Treasury	
Prof. Sarone ole Sena	
S Kahuki	Secretary

The Committee held four meetings during the year

Board Technical Committee

The Committee reviews the Company's capital expenditure plans, Sales and Marketing strategies, Technology and Research.

The members of the Committee are

PS Ministry of Industry, Trade & Enterprise development Dr. Anthony Omerikwa Kungu Gatabaki Managing Director S. Kahuki	Chairman Representing NSSF Secretary
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The Committee did not meet during the year with the bulk of issues being handled by the Finance Committee.

Board Human Resources & Remuneration Committee

The Committee is responsible for the formulation and review of the human resource policies and organisation structure, appointment of and terms of conditions of senior management, promotion and disciplinary matters relating to senior staff, the remuneration and benefits structure and approval of performance-based rewards.

The Members of the Committee are:

Prof. Sarone ole Sena Dr. Anthony Omerikwa PS Ministry of Industry, Trade & Enterprise development Managing Director S Kahuki	Chairman Representing NSSF Secretary
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The Committee held twenty one meetings during the year

Finance Committee

The Board constituted the Committee on 22 February 2020 in order to enhance supervision of the finance and financing activities of the Company. The Committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the Company. It also reviews the Company's financial performance against its goals and proposes major transactions and programs to the Board. The members of the Committee are:

Kungu Gatabaki CS, Treasury PS Ministry of Industry, Trade & Enterprise development Dr. Anthony Omerikwa Managing Director S Kahuki	Chairman Representing NSSF Secretary
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The Committee held three meetings during the year.

The table below shows the number of committee meetings held during the year and attendance by individual directors.

	Audit committee	Finance Committee	HR & Remuneration Committee
Edwin Kinyua	-	-	-
CS Treasury / Alternate	4	2	4
PS Ministry of Industry, Trade and Enterprise development	1	1	2
NSSF	3	-	4
Managing director	-	-	-
Kungu Gatabaki	3	3	14
Prof. Sarone ole Sena	3	-	20
Company Secretary	4	3	20

Management Committee

The Management Committee is the link between the Board and Management. The Committee assists the Managing Director in giving overall direction to the business. The Committee is responsible for the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, proposals, identification and management of key risk and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The Committee meets at least once a week.

Directors' shareholding

No member of the Board holds shares in his or her personal capacity that exceeds 1% of the total shareholding of the Company.

Directors' remuneration and loans

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby directors might get benefits by means of acquisition of the Company's shares. Information on emoluments and fees paid to directors are disclosed in (Note 33(v)) of the financial statements.

Board Performance Evaluation

Under the guidelines of Performance Contracting and the Board Charter, the Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation of Performance Contracting is conducted quarterly and annually, and the results of the evaluation are provided to the Ministry of Industrialization and Office of the President as required under Performance Contracting.

Going concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Company continues to adopt the going concern basis when preparing the financial statements. The Company has received approval to derive value from its idle assets. The Board has reviewed the operating results for the next one year and is confident that the company will remain a going concern.

Internal controls

The Board has a collective responsibility for the establishment and maintenance of a system of internal control that provides reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board attaches great importance to maintaining a strong control environment and the company's system of internal controls includes the assessment of non-financial risks and controls. The Board has reviewed the Company's internal control policies and procedures and is satisfied that appropriate procedures are in place.

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

All employees have a copy of the Code of Ethics and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. This forms part of the Company's compliance structure, which sets policies and standards for compliance with rules, regulations and legal requirement.

The Board will continue to play its role effectively under the corporate governance structure. The non-executive directors will maintain oversight on management of the Company through Board meetings as well as various Board Committees.

Relations with shareholders

The Board recognizes the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report are used as the opportunity to communicate with shareholders. The Company gives shareholders adequate notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and appoint proxies to represent them where they are unable to attend. Shareholder requests for information are handled on an on-going basis and during the AGM.

In upholding and protecting shareholders' rights, the Board recognizes that every shareholder has a right to participate and vote at the general shareholders' meeting. The Board also allows shareholders to seek clarity on the Company's performance in general meetings.

Skills and experience of the Board

Our Directors have among other attributes the following skills and experience:

- Corporate governance and legal knowledge
- Diverse age profiles
- Cement industry experience
- Diverse and Complementary skills

Code of Conduct

The Board has approved a Code of Ethics, which sets out the Company's core values relating to the lawful and ethical conduct of business.

Conflict of Interest

All directors are under duty to avoid conflict of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. Any potential or actual conflicts of interest are promptly reported to the Company Secretary.

Appointments to the Board

Directors retire by rotation annually, and, if eligible, their names are submitted for re-election at the annual general meetings.

All director appointments are subject to confirmation by shareholders at the annual general meetings. In addition to the induction program for new directors, there are specific training workshops that directors participate that are accredited by the Centre for Corporate Governance.

Interaction with Management

The EAPC Board has a high level of regular interaction with management thereby enabling directors to infuse their considerable experience, professional knowledge of the target market into the strategic direction. There is a policy of open communication between Board and Management and this ensures that the Board is fully informed of major matters concerning EAPC and its business. There is a procedure which allows for directors to suggest additional items for discussion at meetings and to call for additional information or a briefing on any topic prior to the meeting.

During the year 2019/2020, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually.

Communication

The Board is satisfied that decision – making capability and the accuracy of its reporting and financial results are maintained at a high level at all times to ensure adequate disclosure and transparency. The Board relies on the external group of Auditors and Audit Committee to raise any issues of financial concern.

The Company provides timely and appropriate information to shareholders through publication of periodic accounts and the Annual Report and holds an annual face-to-face briefing. Shareholders are also advised of important events that impact the Company's operation.

The directors submit their report together with the audited financial statements which disclose the state of affairs of East African Portland Cement PLC (the "Company") and its subsidiaries together the (the "Group") for the year ended 30 June 2020.

BUSINESS REVIEW

The principal activity of the parent company is the manufacture and sale of cement.

The principal activity of the company's wholly owned subsidiary, East African Portland Cement Uganda Limited, is the sale of cement purchased from the parent company.

Financial Performance

Several factors throughout the year affected the performance of the business adversely. Efforts to reposition the business through revenue and cost matching were impacted by COVID – 19 pandemic which eroded consumer purchasing power. That notwithstanding, the Group gross loss margin reduced to 33% from 43% in 2019 as a result of costs rationalisation.

The Group reported a loss for the year of Shs 2.8 billion (2019: loss of Shs 3.4 billion). The gross loss is mainly driven by insufficient working capital to support throughput leading to inadequate absorption of fixed costs as well as restructuring costs owing to the ongoing staff rationalisation programme. Gains in investment property of Shs 1.1 billion were also booked in the period under review.

Risk Management

The Group faces several risks that are likely to affect the performance if not appropriately and timely mitigated. The continued oversupply of cement in the domestic market and increase in the number of cement players adopting price entry strategy continue to impact on downward pressure on price and thus profitability of the business. The increasing competition also affects the credit risk as more players seek to gain market share through credit incentives. These factors combine to adversely impact on the liquidity risk of the business. Investment in capacity expansion and efficiency remain a major risk in countering the impact of new entrants. Management has developed an elaborate risk management programme to manage the current and future risks that threaten the business.

The Environment

The Group is actively involved in afforestation initiatives through issue of seedlings to the local community. The Group is compliant with National Environmental Management Authority (NEMA) requirements. The company is certified for both environment and safety management systems being EMS 14001:2015 and OHSAS 18001:2007 respectively

Human Capital

The company values the contribution employees put towards realization of corporate objectives and enhancement of shareholder value. The company seeks to empower its employees through carefully targeted training and development programs. The Company technical team obtains diverse knowledge transfer from suppliers of critical installations in the factory. The employee statistics are included below:

	2020	2019
Permanent	268	436
Contract	257	337
Total	525	773

Corporate social responsibility

The Group is strongly involved in community issues as detailed in the corporate social responsibility report as a corporate citizen focused to returning value to the partnering communities.

Outlook

Market outlook in terms of cement demand in the short run remains depressed with current market data dampening prospects of expected medium term demand. This is driven by a difficult operating environment occasioned by declining consumer purchasing power against the backdrop of COVID – 19 pandemic control measures. The company is undertaking cost rationalization (staff and borrowing cost) to survive in the current market as well as partnering with the national government in its affordable housing and infrastructure agenda.

Investment property

In a bid to leverage on its rich asset base and brand value, the company sought shareholder approval of disposal of idle land in order to retire KCB debt obligations, bolster working capital, revamp plant operations and lower fixed costs. To this end, we expect significant changes to Investment property value in the subsequent year

Key performance indicators

The table below highlights some of the key performance indicators;

Key performance ratios	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Gross loss margin	33%	42%	33%	43%
Operating loss margin	126%	72%	126%	71%
Net loss margin	112%	118%	112%	117%
Return on assets	(8%)	(9%)	(8%)	(9%)
Return on equity	(15%)	(15%)	(15%)	(15%)

DIVIDENDS

The Group's and Company's loss after tax for the year of Shs 2,769,347,000 (2019: 3,361,888,000) and Shs 2,768,466,000 (2019: shs 3,327,605,000) respectively has been applied to retained earnings. The directors do not recommend the payment of a dividend in respect of the current year (2019: Shs nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 2.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

The directors confirm that with respect to each director at the time of approval of this report:

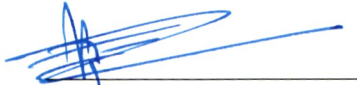
- there is, so far as the director is aware, no relevant audit information of which the Group's and Company auditor is unaware; and
- the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's and Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITOR

The Auditor General is responsible for the statutory audit of the financial statements of East African Portland Cement Plc in accordance with Section 23 of the Public Audit Act, 2015 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf. PricewaterhouseCoopers LLP was nominated by the Auditor General to carry out the audit of East African Portland Cement for the year ended 30 June 2020.

The directors monitor the effectiveness, objectivity and independence of the auditor. The responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

On behalf of the Board



Director

Date: 30 October 2020

The Board of Directors congratulates the dedicated investors for the gallant support accorded to the Company in the just completed financial year. The business environment for the company was harder than previous years due to several factors, both internal and external. As a result, the group turnover dipped by 13% compared to previous year. Due to the challenges faced and the need to consistently design responsive mitigating actions, the Board of Directors undertook various activities on behalf of the Group which when implemented will lead to profitability in the foreseeable future.

The Director's remuneration policy at a glance

Executive Directors

The Managing Director is the only Executive Director of the Group and Company within the confines of the Company's act. His remuneration is in accordance with the staff remuneration policy as approved by the Board of Directors. His remuneration package comprises a basic salary, gratuity and other benefits designed to recognize his skills, experience and attention required to run the Group.

Non-Executive Directors

Non-Executive Directors receive fees and other emoluments in recognition of their contribution to the Company for Board and Committee meetings. The fees are approved by Shareholders at Annual General Meetings and is payable after the occurrence of the meetings. The salaries and expense allowances are paid in the course of the year. The Non-Executive Directors do not receive any performance-based remuneration. No pension contributions are payable on their emoluments. The Group reimburses travel and accommodation expenses related to attendance at board meetings.

Directors' shareholding

No member of the board of directors holds shares in his or her personal capacity in the Group. However, the directorships mirror representation of key shareholders of the Group. The National Treasury is represented by the Cabinet secretary with a nominated alternate while the parent ministry is represented by the Principal Secretary with a nominated alternate. The National Social Security Fund as a director is represented by the Managing Trustee with a nominated alternate.

There will be no changes to these policies in the next financial year.

Directors Contract of service

The tenures of the directors in office during the last financial year are tabulated below

DIRECTORS CONTRACT OF SERVICE		
Director	Start of contract	End of Contract
Edwin Kinyua	21 September 2019	20 September 2021
Kungu Gatabaki	Shareholder rep	Shareholder rep
Prof. Sarone Ole Sena	Shareholder rep	Shareholder rep
Amb. Ukur Yattani	Shareholder rep	Shareholder rep
National Social Security Fund	Shareholder rep	Shareholder rep
Betty Maina	Shareholder rep	Shareholder rep

In the previous annual general meeting shareholders voted for the adoption of the directors' remuneration through proposal and secondment on the floor of the AGM. The remuneration policy was not on the agenda for discussion hence was not voted for given that there was no anticipated change except the routine approval of the directors' remuneration in the financial year.

Information subject to audit

The following table shows the remuneration for the executive directors, chairman and non-executive directors in respect of qualifying services for the year ended 30 June 2020 together with the comparative figures for 2019. The aggregate directors' emoluments for Group and Company are shown on below;

Year ended 30th June 2020

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Loss of Office/Termination	Estimated Value of Non cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Simon Peter Ole Nkeri	2,670	-	-	499	11,932	-	15,101
2	Edwin Kinyua	-	300	-	10,024	-	-	10,324
3	Kungu Gatabaki	-	160	-	4,177	-	-	4,337
4	Dr. Antony Omerikwa	-	160	-	900	-	-	1,060
5	Prof. Sarone Ole Sena	-	160	-	3,510	-	-	3,670
6	Betty Maina	-	160	-	43	-	-	203
7	Humphrey Muhu	-	-	-	300	-	-	300
8	Moses Cheseto	-	-	-	386	-	-	386
9	Charles Mahinda	-	-	-	570	-	-	570
10	Edward Wamweya	-	160	-	1,505	-	-	1,665
11	Nicholas Kamau	-	-	-	214	-	-	214
	Totals	2,670	1,100	-	22,128	11,932	-	37,830

Year ended 30 June 2019

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Loss of Office/Termination	Estimated Value of Non cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Simon Peter Ole Nkeri	11,372	-	-	2,128	-	-	13,500
2	Edwin Kinyua	-	300	-	4,704	-	-	5,004
3	Kungu Gatabaki	-	160	-	2,215	-	-	2,375
4	Dr. Antony Omerikwa	-	160	-	729	-	-	889
5	Prof. Sarone Ole Sena	-	160	-	2,313	-	-	2,473
6	Betty Maina	-	160	-	471	-	-	631
7	Humphrey Muhu	-	160	-	1,762	-	-	1,922
8	Moses Cheseto	-	-	-	557	-	-	557
9	Charles Mahinda	-	-	-	1,050	-	-	1,050
	Totals	11,372	1,100	-	15,929	-	-	28,401

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Group is a party, whereby directors might get benefits by means of acquisition of the Group's shares. Information on aggregate of emoluments and fees paid to directors are disclosed in Note 33(vi) of the financial statements.

On behalf of the Board



Director

Date: 30 October 2020

East African Portland Cement Plc
Statement of Directors' Responsibilities
For the year ended 30 June 2020

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Group and Company keeps proper accounting records that: (a) show and explain the transactions of the Company and subsidiary (b) disclose, with reasonable accuracy, the financial position of the Group and Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

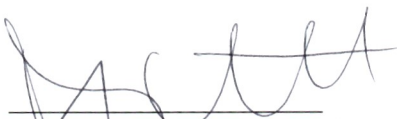
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Group's and Company's ability to continue as a going concern, directors have disclosed as applicable, matters relating to the use of going concern basis of preparation in Note 2(a) of the financial statements.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on *30 October*2020 and signed on its behalf by:



Edwin Muriithi Kinyua, MBS
Director



Kungu Gatabaki
Director



INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of East African Portland Cement Plc (the Company) and its subsidiary (together, the Group) set out on pages 25 to 71, which comprise the Group statement of financial position at 30 June 2020 and the Group statement of profit or loss and other comprehensive income, Group statement of changes in equity and Group statement of cash flows for the year then ended, together with the Company statement of financial position at 30 June 2020 and the Company statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of East African Portland Cement Plc give a true and fair view of the financial position of the Group and the Company at 30 June 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 2(a) in the financial statements, which indicates that the Group and Company incurred a net loss for the year of Shs 2,769,347,000 (2019: Shs 3,361,888,000) and Shs 2,768,466,000 (2019: (3,327,605,000)) respectively during the year ended 30 June 2020 and, as of that date, the Group's and Company's current liabilities exceeded the current assets by Shs 13,829,524,000 (2019: Shs 10,170,657,000) and Shs 13,868,616,000 (2019: Shs 10,189,500,000) respectively.

With effect from 11 December 2019, PricewaterhouseCoopers, a partnership carrying on business under registration number BN.287839 was converted to PricewaterhouseCoopers LLP (LLP-2Y1AB7), a limited liability partnership under the Limited Liability Partnerships Act, 2011.

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INDEPENDENT AUDITOR’S REPORT TO THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC(CONTINUED)

Material uncertainty relating to going concern(continued)

In addition, the Company’s plant continues to operate significantly below capacity due to working capital constraints, lack of essential spare parts and loss of market share to competitors. Due to the cashflow constraints, the Company has been unable to settle some amounts due to key suppliers, statutory payments due to Kenya Revenue Authority and pension liabilities. These events or conditions, along with other matters as set forth in Note 2 (a), indicate that a material uncertainty exists that may cast significant doubt on the Group’s and Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section above, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation and classification of investment properties</p> <p>As disclosed in Note 15, the Group’s and Company’s investment properties consist of investment in land carried at fair value. The Directors engaged an independent professional valuer to determine the fair value as at 30 June 2020. The valuer determined the open market value using recent property transactions prices within the vicinity of the land.</p> <p>A significant portion of the Group’s land is occupied by squatters. As disclosed in Note 15, the directors have exercised judgement in determining the classification of the encroached land as investment property.</p> <p>The fair value of the land occupied by squatters is based on open market values, determined by the independent valuer, as adjusted by the directors’ estimated cost of evicting the squatters and securing the land. The determination of the cost of evicting the squatters involved estimates and significant judgements.</p>	<p>We performed the following audit procedures;</p> <ul style="list-style-type: none"> • We assessed competency, capabilities and objectivity of the independent valuers. • We assessed the appropriateness of the methodology used by the independent valuers and consistency with the International Financial Reporting Standards (IFRS). • We reviewed management’s estimate of eviction costs for reasonableness. • We verified the ownership of the property and assessed management’s judgement on the appropriateness of the classification of the encroached land as investment property. • We reviewed the adequacy of the disclosures in Note 15 of the financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC (CONTINUED)

Other information

The other information comprises the Corporate information, Chairman's statement, Managing director's statement, Corporate governance statement, Directors' report, Directors' remuneration report, and the Statement of directors' responsibilities which we obtained prior to the date of this auditor's report and the rest of the other information in the Annual report which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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.



INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Group's or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or 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 of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

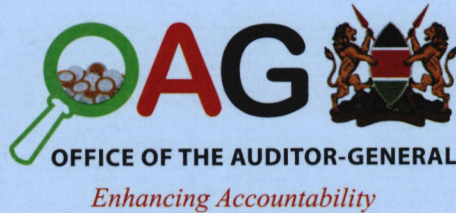
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we 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 our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and the company financial statements of East African Portland Cement PLC (the Company) and its subsidiary (together with the Group) set out on pages 25 to 71, which comprise the consolidated and the Company's statement of financial position as at 30 June, 2020 and the consolidated and the Company's statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East African Portland Cement PLC 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 and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of East African Portland Cement PLC 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 opinion.

Emphasis of Matter

Material Uncertainty Related to Going Concern

I draw attention to Note 2(a) to the financial statements, which indicates that the Group and Company incurred a net loss from operations of Kshs.2,769,347,000

(2019: Kshs.3,361,888,000) and Kshs.2,768,466,000 (2019: Kshs.3,327,605,000) respectively during the year ended 30 June, 2020. Further, the Group and Company's current liabilities exceeded the current assets by Kshs.13,829,524,000 (2019: Kshs.10,170,657,000) and Kshs.13,868,616,000 (2019: Kshs.10,189,500,000) respectively.

The Company defaulted on a loan from one of the key lenders and in September, 2019, the Company obtained approval from shareholders to dispose some of the idle land to retire the debt. Factors that have affected performance have been explained in the Directors' Report and Managing Director's Report. In particular, the cement production plant continues to operate significantly below capacity due to working capital constraints, lack of essential spare parts and loss of market share to competitors. Further, due to the cash flow constraints, the Company has been unable to settle the amounts due to its key suppliers and regulatory authorities including Kenya Revenue Authority and pension liabilities.

The Company had significant litigations and claims against it which, if successful, may result in claims that are unlikely to be settled, given the entity's current financial position. Details of the significant claims include employee related claims arising from unpaid salaries based on the Collective Bargaining Agreement (CBA) terms with an estimated total exposure of Kshs.1.5 billion, debt claims by suppliers for unpaid bills for services rendered and goods delivered totalling to Kshs.397 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling Kshs.196 million. Most of these claims have been provided for in the financial statements.

In addition, the Company has been unable to settle amounts due to statutory authorities which include Pay As You Earn (PAYE) of Kshs.1,347,853,000, Value Added Tax (VAT) of Kshs.356,000,000 and pension liabilities of Kshs.39,000,000 being principal, penalties and interests.

These events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section above, I have determined the matters described below to be the key audit matters to be communicated in my report.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
<p>Fair Valuation of Investment Properties</p> <p>As disclosed in Note 15 to the financial statements, the Group's and Company's investment properties consist of investment in land carried at fair value. The Directors engaged Independent Professional Valuers to determine the fair value as at 30 June, 2020. The valuers determined the open market value using recent property transactions prices within the vicinity of the Group's land.</p> <p>A significant portion of the Group's land is occupied by informal settlers. As disclosed in Note 15 to the financial statements, the Directors have exercised judgement in determining the classification of the encroached land as investment property.</p> <p>The fair value of the land occupied by informal settlers is based on open market values, determined by the independent valuers, as adjusted by the Directors' estimated cost of evicting the informal settlers and securing the land. The determination of the cost of evicting the informal settlers involved estimates and significant judgements.</p>	<p>I have performed the following audit procedures;</p> <ul style="list-style-type: none"> • Assessed competency, capabilities and objectivity of the independent valuers. • Reviewed the terms of the engagement of valuers to ascertain whether there were matters affecting their objectivity or whether there was a scope limitation that would have a significant impact on their work. • Assessed the appropriateness of the methodology used by the independent valuers and its consistency with the International Financial Reporting Standards (IFRS). • Assessed the relevance and reasonableness of the independent findings or conclusions, and their consistency with other audit evidence obtained during the audit. • Assessed the results of the expert's work in light of the knowledge of the real estate sector and the properties owned by the Company. • Reviewed Management's estimate of eviction costs for reasonableness. • Reviewed the adequacy of the disclosures in Note 15 to the financial statements.

Other Matter

1. Loss in Sale of Land

As previously reported, in 2012, the Company entered in a consent to sell land LR. No.8784/4, Athi River (measuring 337 acres) to a local buyer at a price of Kshs.2,200,000 per acre against the carrying value of Kshs.5,200,000 per acre. However, the buyer defaulted on the provisions of the consent by not providing an acceptable bank security within the period of consent. The case was taken to court after which the parties settled at a renegotiated price of Kshs.4,500,000 per acre on 3 May, 2019. The company thereafter revalued the investment property to a carrying value of Kshs.5,256,291 per acre. As a result, the renegotiated price of Kshs.4,500,000 per acre resulted to an impairment loss of Kshs.254,870,067.

2. Land Invaded by Informal Settlers

The investment properties LR No.8784/4 (1,330 acres) is almost 70% invaded by informal settlers while LR No.8786 (745 acres) and LR No 10424 (3,292 acres) are partially occupied by informal settlers. The Company continued to pursue several avenues to reclaim the occupied properties. An estimated cost of evicting the informal settlers amounting to Kshs.376,904,000 has been adjusted in the financial statements in arriving at the fair value of investment properties.

Other Information

The Directors are responsible for the other information, which comprises the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Directors Remuneration Report and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

1. Tax Matters

1.1 Non-Remittance of Pay as You Earn (PAYE) Tax Deductions

Sections 3(2)(a)(ii), 5 and 37 of the Income Tax Act Cap 470 requires employers to deduct PAYE at source and remit the same to the tax authorities before the 9th day of the

subsequent month of pay. However, as at 30 June, 2020, the Company had not remitted PAYE amounting to Kshs.52,500,000 for the twelve (12) months period. Cumulatively the Company made a provision of Kshs.779,000,000 of unremitted PAYE and Kshs.571,000,000 being the penalties there on.

The Company was in breach of law and is exposed to the consequences of non-compliance with the income tax law.

1.2 Non-Remittance of Value Added Tax (VAT)

Section 13(3) of the Value Added Tax Act Cap 476 requires entities to remit VAT payable to tax authorities before the 20th day of the subsequent month of collection. However, the Company had not remitted VAT totalling Kshs.259,000,000 in principal and penalties and interest of Kshs.97,000,000 as at 30 June, 2020.

The Company was in breach of law and therefore exposed to the consequences of non-compliance with the value added tax law.

Further, and as disclosed in Note 29(1) to the financial statements, Kenya Revenue Authority carried out an audit on the Company, covering corporate tax, employees' taxes, withholding tax and VAT for the period from 2005 to 2008. KRA raised an assessment of Kshs.2.5 billion out of which Kshs.1.7 billion had been resolved with the tax Authority. The Company paid Kshs.122,000,000 and appealed against a further Kshs.473,000,000 through the local tax committee which subsequently ruled in favor of the Company. KRA later appealed in the High Court against the local committee ruling. The substantive appeal to the High Court had however not been filed by KRA. The Directors are of the view that no additional liabilities may arise from this matter.

2. Non- Remittance of Employees' Pension Contributions

Sections 53 and 53A of the Retirement Benefits Act, 1997 requires entities to timely remit contributions by the employee's, failure to which, the entities will be penalized. However, the Company had accrued pensions of Kshs.101,000,000 in principal, penalties and interest as at 30 June, 2020. These unremitted contributions date back to August, 2018.

The Company was in breach of law and is exposed to the consequences of non-compliance with the retirement benefits law through penalties and non-payment of retirement benefits to its employees upon retirement.

3. Non- Remittance of Mining Levies

Legal Notice No. 222 of the Mining Act (Cap 306) dated 18 December, 2013 requires cement producers to pay a cement mineral levy at the rate of Kshs.140 per ton of cement with effect from 1 January, 2014. The Company had accruals of non-remitted mining levy amounting to Kshs.363,000,000 as at 30 June, 2020.

The Company was in breach of law and exposed to the consequences of non-compliance with the mining regulations.

4. Non-Remittance of Unclaimed Dividends

Section 20 of the Unclaimed Financial Assets Act, 2011 requires entities to remit unclaimed assets, including but not limited to ownership interests (shares and dividends), with a period of abandonment of three (3) years. As at 30 June, 2020, the Company held in its books, accrued dividends payable amounting to Kshs.102,000,000. Part of this amount has been outstanding for more than three (3) years exposing the Company to increased penalties.

The Company was therefore in breach of law.

5. Loans Exceeding Bank Borrowing Limits

The Company's agreement with Kenya Commercial Bank sets out the approved borrowing limits for the various facilities advanced by the Bank to the Company. As at 30 June, 2020, the Company had exceeded the approved borrowing limit by Kshs.2,770,882,000 (outstanding amount is Kshs.6,040,524,000 while the approved limit is Kshs.3,269,702,000). The non-compliance with the debt arrangement exposes the Company to consequences such as recall of facilities and adverse credit rating, hence difficulties in obtaining additional financing as well as possible loss of the assets charged as security for the debt.

6. Lack of Executed Agreement for Government Loan

Note 23 to the financial statements indicates that the Company holds in its books a Government debt of Kshs.1,483,077,000 (2019: Kshs.1,079,799,000) payable to the Government of Kenya as at 30 June, 2020. The loan amount accumulated from the interest and principal repayment made on Japanese - OECT loan by the Government of Kenya on behalf of the Company as the Government was the guarantor. The loan agreement between the Company and the Government indicating the terms of the loan and the agreed amount was not availed for audit verification. Interest on this Government loan was not accrued during the year under audit.

As a result, it was not possible to ascertain the terms of the loan or the actual outstanding loan amount due to the Government as at 30 June, 2020.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 overall 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 OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) In my opinion, the information given in the report of the Directors on pages 14 to 16 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the Directors' remuneration report on pages 17 to 18 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Directors and those charged with Governance

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and subsidiary's financial statements, the Directors are responsible for assessing the group's and the subsidiary's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors are aware of the intention to liquidate the Company and its subsidiary or to cease operations.

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provision 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.

Those charged with governance are responsible for overseeing the group's and the subsidiary's financial reporting process, reviewing the effectiveness of Management's systems for monitoring 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 Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the consolidated and Company 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 provision of Section 48 of the Public Audit Act, 2015 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 review is planned and performed to express a conclusion on whether, in all material respects, 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, 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 internal control would not necessarily disclose all matters in the internal control which 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 which 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 group's and the subsidiary'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 consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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 consolidated and Company's 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 within the group to express an opinion on the consolidated and Company's 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 we identify during our audit.

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

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

30 October, 2020

Group and Company statement of profit or loss and other comprehensive income

	Notes	Group Year ended 30 June		Company Year ended 30 June	
		2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Revenue	6	2,474,902	2,847,273	2,474,902	2,839,572
Cost of sales		(3,300,350)	(4,052,555)	(3,300,350)	(4,051,736)
Gross loss		(825,448)	(1,205,282)	(825,448)	(1,212,164)
Other operating income	9	198,864	1,691,487	198,864	1,691,487
Selling and distribution		(177,694)	(260,734)	(177,694)	(260,194)
Administration and establishment		(1,859,448)	(1,798,735)	(1,858,567)	(1,790,870)
Other operating expenses		(464,815)	(489,117)	(464,815)	(456,357)
Loss from operations	7	(3,128,541)	(2,062,381)	(3,127,660)	(2,028,098)
Finance income	10	1,456	25,275	1,456	25,275
Finance costs	10	(786,304)	(691,588)	(786,304)	(691,588)
Fair value gain(loss) on investment property	15	1,114,779	(233,204)	1,114,779	(233,204)
Loss before tax		(2,798,610)	(2,961,898)	(2,797,729)	(2,927,615)
Income tax credit/ (expense)	11	29,263	(399,990)	29,263	(399,990)
Loss for the year		(2,769,347)	(3,361,888)	(2,768,466)	(3,327,605)
Other comprehensive income for the year					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Remeasurement of post-employment benefit obligations, net of tax	22	(18,686)	92,261	(18,686)	92,261
<i>Items that may be subsequently reclassified to profit or loss</i>					
Exchange differences on translation of foreign operation, net of tax		21,195	(19,145)	-	-
Total other comprehensive loss for the year		(2,766,838)	(3,288,772)	(2,787,152)	(3,235,344)
Earnings/(loss) per share					
- Basic and diluted (Shs)	12	(30.77)	(37.35)	(30.76)	(36.97)

Group and Company statement of financial position

	Notes	Group At 30 June		Company At 30 June	
		2020	2019	2020	2019
		Shs'000	Shs'000	Shs'000	Shs'000
ASSETS					
Non-current assets					
Investment properties	15	24,909,676	23,794,897	24,909,676	23,794,897
Property, plant and equipment	13	6,931,317	7,475,702	6,931,297	7,475,747
Due from related parties	33(iii)	860,985	1,645,709	860,985	1,645,709
Right-of-use assets	31(b)	60,671	-	60,671	-
Prepaid operating leases	14	-	6,353	-	6,353
Investment in subsidiary	16	-	-	2,500	2,500
		<u>32,762,649</u>	<u>32,922,661</u>	<u>32,765,129</u>	<u>32,925,206</u>
Current assets					
Trade and other receivables	20	1,174,201	2,375,618	1,141,401	2,363,375
Inventories	19	1,112,167	1,131,473	1,112,167	1,131,247
Cash and cash equivalents	18	81,524	61,275	71,472	51,262
Current income tax	11	46,352	50,078	46,211	49,937
		<u>2,414,244</u>	<u>3,618,444</u>	<u>2,371,251</u>	<u>3,595,821</u>
TOTAL ASSETS		<u>35,176,893</u>	<u>36,541,105</u>	<u>35,136,380</u>	<u>36,521,027</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	21	450,000	450,000	450,000	450,000
Share premium	21	648,000	648,000	648,000	648,000
Asset revaluation reserve	21	1,181,352	1,360,599	1,181,352	1,360,599
Retained earnings		16,437,319	19,046,105	16,437,176	19,045,081
Other reserve	21	36,469	15,274	-	-
		<u>18,753,140</u>	<u>21,519,978</u>	<u>18,716,528</u>	<u>21,503,680</u>
TOTAL EQUITY		<u>18,753,140</u>	<u>21,519,978</u>	<u>18,716,528</u>	<u>21,503,680</u>
Non-current liabilities					
Post-employment benefits obligation	22	146,176	1,192,486	146,176	1,192,486
Lease liabilities	31(a)	33,809	-	33,809	-
Deferred income tax	24	-	39,540	-	39,540
		<u>179,985</u>	<u>1,232,026</u>	<u>179,985</u>	<u>1,232,026</u>
Current liabilities					
Borrowings	23	7,523,601	5,527,789	7,523,601	5,527,789
Trade and other payables	26	7,248,198	6,965,195	7,244,297	6,961,415
Post-employment benefits obligation	22	1,346,737	-	1,346,737	-
Dividends payable	27	101,680	101,680	101,680	101,680
Lease liabilities	31(a)	23,552	-	23,552	-
Bank overdraft	25	-	1,194,437	-	1,194,437
		<u>16,243,768</u>	<u>13,789,101</u>	<u>16,239,867</u>	<u>13,785,321</u>
TOTAL EQUITY AND LIABILITIES		<u>35,176,893</u>	<u>36,541,105</u>	<u>35,136,380</u>	<u>36,521,027</u>

The financial statements on pages 25 to 71 were approved for issue by the board of directors on 30 October 2020 and signed on its behalf by:


 Edwin Kinyua
 Director


 Kungu Gatabaki
 Director

Group statement of changes in equity

	Share Capital	Share Premium	Asset revaluation reserve	Retained earnings	Other reserve	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2019						
At start of year						
As previously reported	450,000	648,000	1,506,107	22,057,519	34,419	24,696,045
Prior year adjustment	-	-	-	112,705	-	112,705
As restated	450,000	648,000	1,506,107	22,170,224	34,419	24,808,750
Transfer of excess depreciation	-	-	(207,869)	207,869	-	-
Deferred tax on excess depreciation	-	-	62,361	(62,361)	-	-
Loss for the year	-	-	-	(3,361,888)	-	(3,361,888)
Other comprehensive income	-	-	-	92,261	(19,145)	73,116
Total comprehensive income for the year	-	-	-	(3,269,627)	(19,145)	(3,288,772)
At end of year	450,000	648,000	1,360,599	19,046,105	15,274	21,519,978
Year ended 30 June 2020						
At start of year	450,000	648,000	1,360,599	19,046,105	15,274	21,519,978
Transfer of excess depreciation	-	-	(238,996)	238,996	-	-
Deferred tax on excess depreciation	-	-	59,749	(59,749)	-	-
Loss for the year	-	-	-	(2,769,347)	-	(2,769,347)
Other comprehensive income	-	-	-	(18,686)	21,195	2,509
Total comprehensive income for the year	-	-	-	(2,788,033)	21,195	(2,766,838)
At end of year	450,000	648,000	1,181,352	16,437,319	36,469	18,753,140

Company statement of changes in equity

	Share Capital Shs'000	Share Premium Shs'000	Asset revaluation Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2019					
At start of year					
As previously reported	450,000	648,000	1,506,107	22,022,212	24,626,319
Prior year adjustment	-	-	-	112,705	112,705
As restated	450,000	648,000	1,506,107	22,134,917	24,739,024
Transfer of excess depreciation	-	-	(207,869)	207,869	-
Deferred tax on excess depreciation	-	-	62,361	(62,361)	-
Loss for the year	-	-	-	(3,327,605)	(3,327,605)
Other comprehensive income	-	-	-	92,261	92,261
Total comprehensive income for the year	-	-	-	(3,235,344)	(3,235,344)
At end of year	450,000	648,000	1,360,599	19,045,081	21,503,680
Year ended 30 June 2020					
At start of year	450,000	648,000	1,360,599	19,045,081	21,503,680
Transfer of excess depreciation	-	-	(238,996)	238,996	-
Deferred tax on excess depreciation	-	-	59,749	(59,749)	-
Loss for the year	-	-	-	(2,768,466)	(2,768,466)
Other comprehensive income	-	-	-	(18,686)	(18,686)
Total comprehensive income for the year	-	-	-	(2,787,152)	(2,787,152)
At end of year	450,000	648,000	1,181,352	16,437,176	18,716,528

Group and Company statement of cash flows

	Notes	Group		Company	
		Year ended 30 June		Year ended 30 June	
		2020	2019	2020	2019
		Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from operating activities					
Net cash used in operations	28	(1,495,734)	(1,514,617)	(1,495,838)	(1,521,200)
Interest paid		(20,913)	(145,853)	(20,913)	(145,853)
Post- employment benefits paid		(487,034)	(13,618)	(487,034)	(13,618)
Interest received		1,456	3,059	1,456	3,059
Income tax paid		322	-	322	-
Net cash used in operating activities		(2,001,903)	(1,671,029)	(2,002,007)	(1,677,612)
Cash flows from investing activities					
Purchase of property, plant and equipment	13	(6,354)	(26,425)	(6,289)	(26,425)
Proceeds from the previous sale of investment properties		2,000,000	1,200,000	2,000,000	1,200,000
Proceeds on sale of motor vehicles		7,738	4,436	7,738	4,436
Net cash generated from investing activities		2,001,384	1,178,011	2,001,449	1,178,011
Cash flows from financing activities					
Proceed from borrowings	23	1,375,065	1,439,755	1,375,065	1,439,755
Repayment of borrowings	23	(144,305)	(1,054,249)	(144,305)	(1,054,249)
Repayment of principal portion of lease liability	31	(15,555)	-	(15,555)	-
Net cash generated from financing activities		1,215,205	385,506	1,215,205	385,506
Net increase/(decrease) in cash and cash equivalents		1,214,686	(107,512)	1,214,647	(114,095)
Movement in cash and cash equivalents					
At start of year		(1,133,162)	(1,025,650)	(1,143,175)	(1,029,080)
Increase/(decrease)		1,214,686	(107,512)	1,214,647	(114,095)
At end of year	28	81,524	(1,133,162)	71,472	(1,143,175)

Notes

1 General information

East African Portland Cement Plc is incorporated in Kenya under the Kenyan Companies Act as a limited liability company and is domiciled in Kenya. The address of its registered office is:

L R 337/113/1
Namanga Road, off Mombasa Road
P. O. Box 40101 – 00100
Nairobi

The shares of the company are listed on the Nairobi Securities Exchange.

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 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB). The measurement basis applied is the historical cost basis. The financial statements are presented in Kenya shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Going concern

The Group and Company incurred a net loss for the year of Shs 2,769,347,000 (2019: Shs 3,361,888,000) and Shs 2,768,466,000 (2019: (3,327,605,000)) respectively during the year ended 30 June 2020 and, as of that date, the Group's and Company's current liabilities exceeded the current assets by Shs 13,829,524,000 (2019: Shs 10,170,657,000) and Shs 13,868,616,000 (2019: Shs 10,189,500,000) respectively.

The Company defaulted on a loan from one of the key lenders and in September 2019, we obtained approval from shareholders to dispose some of the idle land to retire the debt. Factors that have affected performance have been explained in the Director's Report and Managing Director's Report. In particular, the plant continues to operate significantly below capacity due to working capital constraints, lack of essential spare parts and loss of market share to competitors. Due to the cashflow constraints, the Company has been unable to settle the amounts due to its key suppliers and regulatory authorities including Kenya Revenue Authority and pension liabilities.

The Company has significant litigations and claims against it which if successful, may result in claims that are unlikely to be settled, given the entity's current financial position. Details of the significant claims include employee related claims arising from unpaid salaries based on the CBA terms with an estimated total exposure of Shs 1.5 billion, debt claims by suppliers for unpaid bills for services rendered and /or goods delivered totalling Shs. 397 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling to Shs. 196 million. Most of these claims have been provided for in the financial statements.

Due to the cashflow constraints, the Company has been unable to settle the amounts due to regulatory authorities which include PAYE balances of Shs 1,348 million, VAT balances of Shs 356 million and pension balances of Shs 39 million being principal, penalties and interests.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Going concern(continued)

The Group's total assets exceeded the total liabilities by Sh 18,753,140,000 (2019; Shs 21,519,978,000) due to investment properties carried at fair value. The Board of Directors has purposed to extract value from disposal of part of the investment property to normalise its working capital. Therefore, there is enough room that guarantees the Group's ability to meet its obligations.

The Board of Directors has put in place various strategies and sought the necessary support from the Government and other key shareholders towards raising the required financing to address the liquidity gap. Key amongst these initiatives is disposal of idle assets to support the capitalization of the business. To this end, the Company has engaged with the National Government with a view to raise funds through the sale of a portion of its fully mined vast idle land. The funds raised will be used for modernization of the ageing plant and enhancement of the current working capital facilities for importation of bulk raw materials to enable optimization of the current installed cement milling and packing capacity. This is expected to increase product availability to the trade in line with the company installed milling capacity, supported by enhanced in-house clinker production and operating efficiencies, hence increase in sales revenue and profitability.

The Company has taken decisive steps to reduce staff overheads with a reduction of 30% on monthly staff costs to be achieved from second quarter of 2020/2021. The company has also engaged its lenders to restructure and eventually retire the expensive loan obligations.

The requisite approvals for the disposal of the idle assets have been obtained and actualization of the benefits expected in the second quarter of the financial year ending 30 June 2021. Directors have reviewed the projections as based on the above strategies and the medium-term plan and are confident that it is appropriate to prepare the financial statements on the going concern basis. Based on the implementation of the various turnaround initiatives outlined above, the directors consider it appropriate to prepare the financial statements on the going concern basis.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

One new Standard, one new Interpretation and a number of amendments to standards became effective for the first time in the financial year beginning 1 July 2019 and have been adopted by the Group. Neither the amendments nor the interpretation has had an effect on the Group's financial statements, but the new standard has had an impact, as follows:

IFRS 16 Leases

From 1 July 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the Group now recognises lease liabilities relating to leases under which the Group is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 July 2019 and leases of low value items). Such liabilities have been measured at 1 July 2019 at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as at 1 July 2019. Corresponding right-of-use assets have been recognised, measured as if the Group's new accounting policy (see Note 2(i)) had been applied since the commencement of each lease but discounted using the Company's incremental borrowing rate as at 1 July 2019. The difference between the lease liabilities and right-of-use assets at 1 July 2019 would be recognised as an adjustment to retained earnings. The resultant adjustment as at 1 July 2019 was immaterial hence no adjustment has been processed through retained earnings (see Note 31 and 32). As permitted by the transition provisions in the new Standard, comparative amounts have not been restated.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Group (continued)

IFRS 16 Leases (continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review.
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made in applying IAS 17 and Interpretation 4 to determine whether an arrangement contains a lease. As permitted by the transition provisions in the new standard, comparative amounts have not been restated.

(ii) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes (continued)

2 Summary of significant accounting policies(continued)

(b) Consolidation(continued)

(i) Subsidiaries(continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. Investments in subsidiary companies are carried at cost less provision for impairment.

(c) Revenue recognition

The Group generates revenue from sales of cement and paving blocks. Revenue is recognised as and when it satisfies a performance obligation by transferring control of a product to a customer. The amount of revenue recognised is the amount the Group expects to receive in accordance with the contract with the customer and excludes amounts collected on behalf of third parties, such as value added tax.

i) Sale of cement and paving blocks

Revenue from sale of cement and paving block is recognised as and when and when the Group satisfies its performance obligation by transferring control of a product to a customer. The point of transfer of control is determined as date of delivery to and acceptance by the customer. There is no variable element to the contract price, and payment, less any deposit already paid, is typically due within the agreed credit period with the customer.

Notes (continued)

2 Summary of significant accounting policies(continued)

(d) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. Once a financial asset is identified as credit-impaired, the effective interest rate is applied to the amortised cost (net of impairment losses) in subsequent reporting periods.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) Current and deferred income tax

(i) Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated based on the tax enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes (continued)

2 Summary of significant accounting policies(continued)

(g) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. 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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value profit or loss in profit or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to statement of other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(h) Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently stated at professionally revalued amounts less accumulated depreciation and impairment losses. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Critical spare parts and standby equipment which are expected to be in use during more than one period are accounted for as property, plant and equipment.

The Group policy is to professionally revalue property, plant and equipment at least once every three to five years. The property, plant and equipment were revalued as at 30 June 2017.

Notes (continued)

2 Summary of significant accounting policies(continued)

(h) Property, plant and equipment(continued)

Any surplus on revaluation is recognised in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is to the revalued amount of the asset.

(i) Capital work in progress

Assets in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

(ii) Depreciation

No depreciation is provided on freehold land as the useful life is indefinite. Depreciation on other items of property, plant and equipment is charged on the straight-line basis over the estimated useful lives of the assets.

Critical spares are depreciated over the period starting when the item is brought into service and continuing over the shorter of its useful life and the remaining expected useful life of the asset to which it relates.

The rates of depreciation used are based on the following estimated useful lives:

Buildings	40 years or period of lease, whichever is less
Plant and machinery	8 to 20 years
Motor vehicles	3 to 4 years
Office equipment, furniture and fittings	4 to 20 years
Computers	3 years

The residual values and useful lives are reassessed annually and adjusted prospectively if appropriate.

Where the residual value exceeds the carrying value, no depreciation is charged in the next year. The excess annual depreciation attributable to revaluation surplus on property, plant and equipment is transferred annually from the asset revaluation reserve to the retained earnings.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes (continued)

2 Summary of significant accounting policies(continued)

(i) Leases

Leases under which the Group is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used.

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components. Subsequently, the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The useful lives of the current lease arrangements are between 3-5 years with the option to renew for some of the leases.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

Leases under which the Group is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases.

Payments received under operating leases are recognised as income in profit or loss on a straight-line basis over the lease term. The Group has not entered any finance leases.

The revised accounting policy has been applied from 1 July 2019.

The Group's accounting policy for leases under which the Group was a lessee was, up to 30 June 2019, as follows: leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and the overheads incurred in bringing the inventories to their present location and condition. Costs of direct materials are determined on the first-in first-out basis, while those of general consumable stores are determined on the weighted average cost basis. Net realisable value represents the estimated selling price less the estimated cost to completion and costs to be incurred in marketing, selling and distribution. Work-in-progress, which comprises raw meal and clinker, is stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and allocation of fixed and normal production overheads attributable to the process.

Notes (continued)

2 Summary of significant accounting policies(continued)

(k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, amortisation and accumulated impairment losses are netted from the cost. Expenditure on internally generated intangible assets, excluding capitalised development costs, is reflected in profit or loss in the year in which it is incurred.

Intangible assets with finite lives are amortised on a straight-line basis over their useful economic lives from the date they are available for use, up to a maximum of three years. Intangible assets are assessed for impairment whenever there is an indication that an intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Periodic software maintenance costs are recognised as an expense when incurred.

Gains or losses arising from derecognising of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(l) Investment properties

Investment properties include properties held for appreciation of capital or as a source of rental income or both. They are measured initially at cost, including transaction costs, and excluding the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model to recognise the asset. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model.

(m) Leasehold land

Payments to acquire interests in leasehold land are treated as prepaid operating leases. They are stated at historical cost and are amortised over the term of the related lease.

Notes (continued)

2 Summary of significant accounting policies(continued)

(n) Financial instruments

The Group and Company adopted IFRS 9 on 1 July 2018. The objective of IFRS 9 is to establish principles that will present relevant and useful information to users of financial statements.

Initial recognition

Financial instruments are recognised when, and only when, the Group becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Group commits itself to the purchase or sale.

Classification

The Company classifies its financial instruments into the following categories:

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost;

All financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions, trade and other receivables, and amounts due from related parties were classified as at amortised cost.
- Borrowings and trade and other liabilities were classified as at amortised cost.

Initial measurement:

- (i) Trade receivables and demand and term deposits are measured at their transaction price.
- (ii) All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

Subsequent measurement

Financial assets and financial liabilities after initial recognition are measured at amortised cost. Interest income and exchange gains and losses on monetary items are recognised in profit or loss.

Impairment

The Group recognises a loss allowance for expected credit losses on receivables that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Notes (continued)

2 Summary of significant accounting policies(continued)

(n) Financial instruments (continued)

Impairment (continued)

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Presentation

All financial assets are classified as non-current except those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except, those expected to be settled in the Group's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the Group does not have an unconditional right to defer settlement for at least 12 months after the financial reporting date.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Company has transferred substantially all risks and rewards of ownership, or when the Group has no reasonable expectations of recovering the asset.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

(o) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (Group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

(p) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Notes (continued)

2 Summary of significant accounting policies(continued)

(q) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Board of Directors). Management allocates resources to and assess the performance of the operating segments of the Group. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8 the Group has the following geographical segments; Kenya and Regional market segments (see note 5)

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(s) Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date. The Group's unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service are entitled to twenty one days' pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement. The Group's employees under contract terms are also entitled to gratuity at the rate of 25% of their annual basic salary for each completed year of service. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the consolidated financial statements at the present value of benefits payable as it accrues to each employee.

(t) Employee benefits

i) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under a short-term cash bonus only if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

ii) Retirement benefit costs

The Group operates an unfunded service gratuity benefit scheme for unionisable employees based on basic salary and years of service. The obligation under the scheme is recognised based on actuarial valuation. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income

Notes (continued)

2 Summary of significant accounting policies(continued)

(u) Dividend distribution

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an annual general meeting (AGM).

(v) Comparatives

Where necessary, comparative numbers have been adjusted or to conform to changes in presentation in the current year.

3 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance/internal audit department under policies approved by the Board of Directors. The finance/internal audit department identifies, evaluates and mitigates financial risks. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets and is managed on a Group-wide basis.

Credit risk on cash and term deposits with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution. The Company carries out its own assessment of credit risk before investing in term deposit and updates such assessments at each reporting date.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by considering the financial position, experience and other relevant factors. Credit is managed by setting a credit limit and credit period for each customer in accordance with limits set by the Board of Directors. The utilisation of the credit limits and the credit period is monitored by Group management on a monthly basis. Limits and scoring attributed to customers are reviewed twice a year.

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for credit losses already recognized

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

If the Group does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the Company groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument
- industry in which the debtor operates
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows

	Gross carrying amount Shs '000	Loss allowance Shs '000	Net carrying amount Shs '000
At 30 June 2020 – Group			
Trade receivables (Note 20)	427,906	(412,329)	15,577
Other receivables. (Note 20)	70,831	-	70,831
Amount due from related parties (Note 33(iii))	1,948,778	-	1,948,778
Cash at bank balances (Note 18)	60,034	-	60,034
Short-term deposit (Note 18)	11,891	-	11,891
	2,519,440	(412,329)	2,107,111
At 30 June 2019 – Group			
Trade receivables (Note 20)	430,022	(391,880)	38,142
Other receivables (Note 20)	66,021	-	66,021
Amount due from related parties (Note 33(iii))	3,917,164	-	3,917,164
Cash at bank balances (Note 18)	6,983	-	6,983
Short-term deposit (Note 18)	43,278	-	43,278
	4,463,468	(391,880)	4,071,588
At 30 June 2020 - Company			
Trade receivables (Note 20)	378,368	(361,716)	16,652
Due from related parties (Note 33(iii))	1,992,789	(44,011)	1,948,778
Other receivables (Note 20)	36,956	-	36,956
Cash at bank balances (Note 18)	59,059	-	59,059
Short-term deposit (Note 18)	11,891	-	11,891
	2,479,063	(405,727)	2,073,336
Exposure to credit risk	2,479,063	(405,727)	2,073,336

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

	Gross carrying amount	Loss allowance	Net carrying amount
At 30 June 2019 – Company	Shs '000	Shs '000	Shs '000
Trade receivables (Note 20)	392,726	(341,267)	51,459
Amount due from related parties (Note 20)	4,287,510	(359,464)	3,928,046
Other receivables (Note 20)	29,579	-	29,579
Cash at bank balances (Note 18)	6,037	-	6,037
Short-term deposits (Note 18)	43,278	-	43,278
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	4,759,130	(700,731)	4,058,399
	<hr/>	<hr/>	<hr/>

Other receivable balances disclosed above excludes prepayments.

The resultant loss allowance for cash and bank balances was immaterial.

The age analysis of the trade receivables at the end of each year were as follows;

	Gross carrying amount	Loss allowance	Net carrying amount
	Shs'000	Shs'000	Shs'000
At 30 June 2020- Group			
<i>Aged debtor balances</i>			
Current	19,591	(14,511)	5,080
16- 30 days	6,876	(1,241)	5,635
31 to 60 days	6,173	(3,851)	2,322
61- 90 days	25,978	(25,539)	439
Over 90 days	369,288	(367,187)	2,101
	<hr/>	<hr/>	<hr/>
	427,906	(412,329)	15,577
	<hr/>	<hr/>	<hr/>
At 30 June 2019- Group			
<i>Aged debtor balances</i>			
Current	19,688	(13,738)	5,950
16- 30 days	6,910	(1,175)	5,735
31 to 60 days	10,223	(3,646)	6,577
61- 90 days	26,106	(24,179)	1,927
Over 90 days	367,095	(349,142)	17,953
	<hr/>	<hr/>	<hr/>
	430,022	(391,880)	38,142
	<hr/>	<hr/>	<hr/>
At 30 June 2020- Company			
<i>Aged debtor balances</i>			
Current	10,968	(446)	10,522
16- 30 days	4,657	(1,246)	3,411
31 to 60 days	4,849	(3,864)	985
61- 90 days	4,942	(3,395)	1,547
Over 90 days	352,952	(352,765)	187
	<hr/>	<hr/>	<hr/>
	378,368	(361,716)	16,652
	<hr/>	<hr/>	<hr/>

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

At 30 June 2019- Company	Gross carrying amount	Loss allowance	Net carrying amount
<i>Aged debtor balances</i>	Shs'000	Shs'000	Shs'000
Current	19,688	(421)	19,267
16- 30 days	6,910	(1,175)	5,735
31 to 60 days	10,223	(3,646)	6,577
61- 90 days	5,130	(3,203)	1,927
Over 90 days	350,775	(332,822)	17,953
	392,726	(341,267)	51,459

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The following tables analyse the Group's and company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Group	< than 1 year	Over 1 year	Total
	Shs'000	Shs'000	Shs'000
At 30 June 2020			
Trade and other payables (Note 26)	7,248,198	-	7,248,198
Borrowings (Note 23)	8,200,663	-	8,200,663
Lease liabilities (undiscounted)	23,552	48,833	72,385
Post-employment benefits obligation (Note 22)	1,346,737	146,176	1,492,913
Dividend payable (Note 27)	101,680	-	101,680
	16,920,830	195,009	17,115,839
	< than 1 year	Over 1 year	Total
	Shs'000	Shs'000	Shs'000
At 30 June 2019- Group			
Trade and other payables (Note 26)	6,965,195	-	6,965,195
Borrowings- term loan (Note 23)	6,010,078	-	6,010,078
Bank overdraft (Note 24)	1,194,437	-	1,194,437
Post-employment benefits obligation (Note 22)	-	1,192,486	1,192,486
Dividend payable (Note 27)	101,680	-	101,680
	14,271,390	1,192,486	15,463,876

Notes (continued)

3 Financial risk management objectives and policies(continued)

Liquidity risk (continued)

At 30 June 2020- Company

Trade and other payables (Note 26)	7,244,297	-	7,244,297
Borrowings (Note 23)	8,200,663	-	8,200,663
Dividends payable (Note 27)	101,680	-	101,680
Lease liabilities (undiscounted)	23,552	48,833	72,385
Post-employment benefits obligation (Note 22)	1,346,737	146,176	1,492,913

Total financial liabilities	16,916,929	195,009	17,111,938
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At 30 June 2019- Company

Trade and other payables (Note 26)	6,961,415	-	6,961,415
Borrowings (Note 23)	6,010,078	-	6,010,078
Bank overdraft (Note 25)	1,194,437	-	1,194,437
Post-employment benefit (Note 22)	-	1,192,486	1,192,486
Dividends payable (Note 27)	101,680	-	101,680

	14,267,610	1,192,486	15,460,096
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The borrowings carrying values stated in the statement of financial position defer from the values stated above, due to estimated future interest payable, included as part of the undiscounted cash flows for borrowings stated above.

Market risk

(i) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Japanese Yen and Uganda Shilling denominated transactions and the related recognized assets and liabilities

At 30 June 2020, if the Shilling had weakened/strengthened by 5% against the Ugandan Shilling with all other variables held constant, post-tax profit for the year would have been Shs 2,893,000 higher/lower (2019: Shs 3,540,000), mainly as a result of Ugandan Shilling denominated trade payables and trade receivables.

Notes (continued)

3 Financial risk management objectives and policies(continued)

Market risk (continued)

(i) *Foreign exchange risk(continued)*

At 30 June 2020 if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 10,572,000 higher/lower (2019: (30,825,380)), mainly as a result of US Dollar denominated trade payables and cash balances.

(ii) *Price risk*

The Group does not hold any financial instruments subject to price risk.

(iii) *Interest rate risk*

Interest rate risk is the risk that the cash flows of a financial instrument will fluctuate due to changes in interest rates. The Group is exposed to this risk in respect of its interest-bearing borrowings from the bank and other external parties. The exposure to interest rate risk is managed primarily by an agreement signed by the parties which sets the applicable rate.

At 30 June 2020 , if the interest rate had increased /decreased by 100 basis points with all other variables held constant, profit for the year would have been Shs 74,796,000 (2019: Shs 67,222,000) higher /lower.

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings. Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Group does not have a gearing ratio target and it is not subject to any imposed capital requirements.

The gearing ratios at 30 June 2020 and 2019 are as follows:

	Group		Company	
	2020	2019	2020	2019
	Shs'000	Shs'000	Shs'000	Shs'000
Equity(i)	18,753,140	21,519,978	18,716,528	21,503,680
Debt (ii) (Note 23 and 25)	7,523,601	6,722,226	7,523,601	6,722,226
Less cash and cash equivalents (Note 18)	(81,524)	(61,275)	(71,472)	(51,262)
Net debt	7,442,077	6,660,951	7,452,129	6,670,964
Gearing ratio	28%	24%	28%	24%

- Equity includes all capital and reserves of the Group that are managed as capital.
- Debt is defined as long term, short-term borrowings and overdraft.

Notes (continued)

4 Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below;

(i) Impairment allowance on financial assets

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements and estimations are also required in applying the accounting requirements for measuring ECL, such as:

- The application of IFRS 9 risk parameters i.e. probably of default (PD), loss given at default (LGD) and exposure at default (EAD) to trade receivables; and
- The definition of default, determination of probability of default matrix and identification of exposures with significant deterioration in credit quality.

(ii) Recoverability of deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) Fair valuation of Investment properties

Estimates are used in adjusting inputs with the most significant impact on valuations of investment properties and include assumptions made in adjusting values of recent sales of neighbouring properties to consider the size of the Group's land and the cost of evicting squatters and securing the properties.

Management has made significant judgement in determining the classification of land occupied by squatter as investment property and in determining the fair value of the land occupied by the squatters as explained in Note 15.

(iv) Fair value of property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently stated at professionally revalued amounts less accumulated depreciation and impairment losses. Estimates are used in adjusting inputs with the most significant impact on valuations of property, plant and equipment and include assumptions made in adjusting values of recent sales of neighbouring properties to consider the size of the Group's land.

Notes (continued)

4 Critical accounting estimates and judgements(continued)

(v) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The non-financial assets include, investment properties, investments in subsidiary and property, plant and equipment.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the company considers the following indications:

- there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use
- significant changes with an adverse effect on the entity have taken place during the period, or will take place soon, in the technological market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- the carrying amount of the net assets of the entity is more than its market capitalization.
- evidence is available of obsolescence or physical damage of an asset.
- significant changes with an adverse effect on the entity have taken place during the period or are expected to take place soon, in the extent to which, or way, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

(vi) Determination of lease term and discount rate for lease liabilities

Critical estimates are made by directors in determining the lease term used estimating lease liabilities and the discount rate for future lease payments. As permitted by IFRS 16, the directors use hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Directors have used the averages borrowing rate to discount future lease payments as disclosed on Note 31. A change in the lease term and/or discount rate would have a significant impact to computed right of use and lease liabilities numbers for the Group as at 30 June 2020.

5 Segment information

The Group revenues are derived from sales in the following markets:

	Group and Company	
	2020	2019
	Shs'000	Shs'000
The Group revenues are derived from sales in the following markets:		
Local market – Kenya	2,470,893	2,807,541
Regional market (East Africa)	4,009	39,732
	<hr/>	<hr/>
	2,474,902	2,847,273
	<hr/>	<hr/>

Sales to the regional market are done directly to selected export customers or through the wholly owned subsidiary, the East African Portland Cement Uganda Limited, whose net assets constitute less than 5% of the Group's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value. In addition, sales to regional market are 1% (2019 – 1%) of the total revenue hence there is only one reportable segment.

Notes (continued)

6 Revenue

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
<i>Recognised at a point in time:</i>				
Bagged cement – local	2,444,538	2,769,943	2,444,538	2,769,943
Bagged cement – export	4,009	39,732	4,009	32,031
Bulk cement – local	24,286	34,844	24,286	34,844
Paving blocks- local	2,069	2,754	2,069	2,754
	<u>2,474,902</u>	<u>2,847,273</u>	<u>2,474,902</u>	<u>2,839,572</u>

7 Expenses by nature

The following items have been charged in arriving at the operating loss from operations:

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Employee benefits expense (Note 8)	2,224,908	2,411,683	2,224,060	2,404,777
Cost of inventories consumed (Note 19)	1,218,666	1,350,286	1,218,666	1,350,286
Electricity expenses	539,344	603,711	539,344	603,642
Depreciation on property, plant and equipment (Note 13)	533,758	536,544	533,758	536,537
Office general expenses	236,349	169,492	236,349	169,112
Repair and maintenance costs	232,772	299,133	232,772	299,133
Fines and penalties	225,245	321,662	225,245	321,662
Transport expenses	214,635	334,555	214,635	334,536
Professional fees	197,961	28,765	197,961	28,800
Other expenses	98,552	315,365	98,519	315,365
Bank charges	25,871	126,633	25,871	125,633
Impairment loss allowance on receivables (Note 20)	20,449	12,502	20,449	9,525
Depreciation of right-of-use assets (Note 31)	12,016	-	12,016	-
Auditors' remuneration	8,600	8,600	8,600	8,600
Advertising and public relations costs	7,063	18,906	7,063	18,906
Net foreign exchange loss	6,118	41,808	6,118	11,687
Depot rent	-	21,411	-	20,871
Amortisation of prepaid lease rentals (Note 14)	-	85	-	85
	<u>5,802,307</u>	<u>6,601,141</u>	<u>5,801,426</u>	<u>6,559,157</u>

8 Employee benefits expense

Salaries and wages	1,101,179	1,662,201	1,100,331	1,656,335
Provision for KCAAWU liability	-	412,942	-	411,902
Restructuring costs	328,116	-	328,116	-
Curtailed and settlement costs	492,219	-	492,219	-
Retirement benefits costs:				
- Defined benefit scheme	270,327	273,261	270,327	273,261
- Defined contribution scheme	30,099	59,569	30,099	59,569
- Social security costs (NSSF)	2,967	3,710	2,967	3,710
	<u>2,224,908</u>	<u>2,411,683</u>	<u>2,224,060</u>	<u>2,404,777</u>

Notes (continued)

8 Employee benefits expense (continued)

The average number of persons employed during the year, by category, were:

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Production	306	358	306	358
Sales and distribution	34	110	34	106
Management and administration	185	305	184	305
	<u>525</u>	<u>773</u>	<u>524</u>	<u>769</u>

9 Other operating income

Sundry income	110,617	6,338	110,617	6,338
Unwinding of discount of Kenya Railways receivable	55,650	-	55,650	-
Rent and electricity recovery	14,396	20,973	14,396	20,973
Cement transport recoveries	12,047	29,200	12,047	29,200
Gain on sale of investment properties	-	1,634,976	-	1,634,976
Gain of on sale of property, plant and equipment	6,154	-	6,154	-
	<u>198,864</u>	<u>1,691,487</u>	<u>198,864</u>	<u>1,691,487</u>

10 Finance income and costs

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
<i>Finance income</i>				
Interest income	1,456	3,059	1,456	3,059
Exchange gain on foreign currency loan	-	22,216	-	22,216
	<u>1,456</u>	<u>25,275</u>	<u>1,456</u>	<u>25,275</u>
<i>Finance cost</i>				
Interest charged on loans (Note 23)	721,057	482,289	721,057	482,289
Interest on overdraft (Note 25)	-	149,146	-	149,146
Exchange loss on other liabilities (Note 17)	8,000	53,571	8,000	53,571
Interest on other liabilities (Note 17)	7,000	6,582	7,000	6,582
Interest on lease liabilities (Note 31(a))	6,252	-	6,252	-
Exchange loss on foreign currency loan (Note 23)	43,995	-	43,995	-
	<u>786,304</u>	<u>691,588</u>	<u>786,304</u>	<u>691,588</u>
Net finance cost	<u>784,848</u>	<u>666,313</u>	<u>784,848</u>	<u>666,313</u>

The exchange (loss)/gain on the loan arises mainly from the valuation of the Japanese Yen denominated loan to Kenya Shillings as 30 June 2019 which is on account of the movement in market rates. The loan was fully repaid as at 30 June 2020.

Notes (continued)

11 (a) Income tax expense

	Group and Company	
	2020	2019
	Shs'000	Shs'000
Current income tax	4,048	7,235
Deferred income tax (Note 24)	(33,311)	(1,335,789)
Deferred tax written off	-	1,728,544
	<hr/>	<hr/>
Income tax expense	(29,263)	399,990
	<hr/>	<hr/>

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Group		Company	
	2020	2019	2020	2019
	Shs'000	Shs'000	Shs'000	Shs'000
Loss before income tax	(2,798,610)	(2,961,898)	(2,797,729)	(2,927,615)
Tax calculated at the statutory income tax rate of 25% (2019: 30%)	(699,653)	(888,569)	(699,432)	(878,285)
Tax effect of:				
Income not subject to tax	(292,607)	(490,492)	(292,607)	(490,492)
Expenses not deductible for tax purposes	61,366	50,507	61,145	40,223
Deferred tax not recognised/written off	543,565	1,728,544	543,565	1,728,544
Effect of change in tax rate	358,066	-	358,066	-
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax expense	(29,263)	399,990	(29,263)	399,990
	<hr/>	<hr/>	<hr/>	<hr/>

(b) Current Income tax

At start of year	50,078	57,313	49,937	57,172
Tax charge for the year	(4,048)	(7,235)	(4,048)	(7,235)
Tax paid	322	-	322	-
	<hr/>	<hr/>	<hr/>	<hr/>
	46,352	50,078	46,211	49,937
	<hr/>	<hr/>	<hr/>	<hr/>

12 Earnings/(loss) per share

Earnings/(loss) for purposes of basic and diluted earnings per share	(2,769,347)	(3,361,888)	(2,768,466)	(3,327,605)
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
Earnings/(loss) per share basic and diluted (Shs)	(30.77)	(37.35)	(30.76)	(36.97)
	<hr/>	<hr/>	<hr/>	<hr/>

Basic earnings per share has been calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive ordinary shares outstanding at 30 June 2020 or 30 June 2019. Therefore, a diluted earnings per share is the same as the basic earnings per share.

Notes (continued)

13 Property, plant and equipment- Group

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers office equipment furniture and fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
At 1 July 2018							
Cost or fair value	362,000	1,261,000	6,305,304	393,243	48,403	190,382	8,560,332
Accumulated depreciation	-	(31,525)	(420,349)	(66,011)	(8,477)	-	(526,362)
Closing net book value	362,000	1,229,475	5,884,955	327,232	39,926	190,382	8,033,970
Year ended 30 June 2019							
Opening carrying amount	362,000	1,229,475	5,884,955	327,232	39,926	190,382	8,033,970
Additions	-	4,602	10,453	101	11,269	-	26,425
Disposals	-	-	-	(39,665)	(1,054)	-	(40,719)
Critical spares write-off	-	-	(1,247)	-	-	-	(1,247)
Depreciation charge	-	(31,583)	(423,867)	(69,184)	(11,910)	-	(536,544)
Depreciation on disposal	-	-	-	11,761	20	-	11,781
Impairment charge	-	-	-	-	-	(17,964)	(17,964)
Closing net book value	362,000	1,202,494	5,470,294	230,245	38,251	172,418	7,475,702
At 30 June 2019							
Cost or fair value	362,000	1,265,602	6,314,510	353,679	58,618	172,418	8,526,827
Accumulated depreciation	-	(63,108)	(844,216)	(123,434)	(20,367)	-	(1,051,125)
Closing net book value	362,000	1,202,494	5,470,294	230,245	38,251	172,418	7,475,702
Year ended 30 June 2020							
Opening carrying amount	362,000	1,202,494	5,470,294	230,245	38,251	172,418	7,475,702
Additions	-	-	-	-	6,354	-	6,354
Disposals	-	-	-	(5,788)	-	-	(5,788)
Depreciation charge	-	(31,640)	(424,984)	(62,669)	(14,465)	-	(533,758)
Depreciation on disposal	-	-	-	4,204	-	-	4,204
Impairment charge	-	-	-	-	-	(15,397)	(15,397)
Closing net book value	362,000	1,170,854	5,045,310	165,992	30,140	157,021	6,931,317
At 30 June 2020							
Cost or fair value	362,000	1,265,602	6,314,510	347,891	64,972	157,021	8,511,520
Accumulated depreciation	-	(94,748)	(1,269,200)	(181,899)	(34,832)	-	(1,580,203)
Net book value	362,000	1,170,854	5,045,310	165,992	30,140	157,021	6,931,317

Notes (continued)

13 Property, plant and equipment- Company

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers , office equipment and Fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July 2018							
Cost or fair value	362,000	1,261,000	6,305,305	393,452	48,221	190,382	8,560,360
Accumulated depreciation	-	(31,525)	(420,349)	(66,011)	(8,467)	-	(526,352)
Closing net book value	362,000	1,229,475	5,884,956	327,441	39,754	190,382	8,034,008
Year ended 30 June 2019							
Opening carrying amount	362,000	1,229,475	5,884,956	327,441	39,754	190,382	8,034,008
Additions	-	4,602	10,453	101	11,269	-	26,425
Disposals	-	-	-	(39,665)	(1,054)	-	(40,719)
Critical spares write-off	-	-	(1,247)	-	-	-	(1,247)
Depreciation charge	-	(31,583)	(423,867)	(69,184)	(11,903)	-	(536,537)
Depreciation on disposal	-	-	-	11,761	20	-	11,781
Impairment charge	-	-	-	-	-	(17,964)	(17,964)
Closing net book value	362,000	1,202,494	5,470,295	230,454	38,086	172,418	7,475,747
At 30 June 2019							
Cost or fair value	362,000	1,265,602	6,314,511	353,888	58,436	172,418	8,526,855
Accumulated depreciation	-	(63,108)	(844,216)	(123,434)	(20,350)	-	(1,051,108)
Closing net book value	362,000	1,202,494	5,470,295	230,454	38,086	172,418	7,475,747
Year ended 30 June 2020							
Opening carrying amount	362,000	1,202,494	5,470,295	230,454	38,086	172,418	7,475,747
Additions	-	-	-	-	6,289	-	6,289
Disposals	-	-	-	(5,788)	-	-	(5,788)
Depreciation charge	-	(31,640)	(424,984)	(62,669)	(14,465)	-	(533,758)
Depreciation on disposal	-	-	-	4,204	-	-	4,204
Impairment charge	-	-	-	-	-	(15,397)	(15,397)
Closing net book value	362,000	1,170,854	5,045,311	166,201	29,910	157,021	6,931,297
At 30 June 2020							
Cost or fair value	362,000	1,265,602	6,314,511	348,101	64,725	157,021	8,511,960
Accumulated depreciation	-	(94,748)	(1,269,200)	(181,900)	(34,815)	-	(1,580,663)
Net book value	362,000	1,170,854	5,045,311	166,201	29,910	157,021	6,931,297

Notes (continued)

13 Property, plant and equipment(continued)

Group and Company

The property, plant and equipment were revalued by Knight Frank Valuers Limited, registered valuers, as at 30 June 2017. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Group's policy is to revalue property, plant and equipment at least once every three to five years. Properties owned by the Group, Land Reference numbers 337/639, 8649, 9767 and 8786, and plant and machinery have been charged to secure loan facilities as disclosed under Note 23.

Critical spares included in plant and machinery amounted to Shs 82,551,418 (2019; 89,208,785) for the Group and Company

Work in progress mainly relates to costs incurred towards assembling a grate cooler for the kiln.

If the revalued property, plant and equipment were carried in the financial statements at historical cost, the balances at year-end would have been as follows:

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers, office equipment and Fittings	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
30 June 2020							
Cost	120,637	139,965	5,193,249	353,888	64,496	157,021	6,029,256
Accumulated depreciation	-	(52,667)	(861,901)	(126,860)	(24,233)	-	(1,065,661)
Net book value	120,637	87,298	4,331,348	227,028	40,263	157,021	4,963,595
30 June 2019							
Cost	120,637	144,567	5,194,496	353,888	58,436	172,418	6,044,442
Accumulated depreciation	-	(28,083)	(608,897)	(98,197)	(13,590)	-	(748,767)
Net book value	120,637	116,484	4,585,599	255,691	44,846	172,418	5,295,675

Fair value hierarchy:

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets or identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group and Company and Company property, plant and equipment were measured based on Level 3 inputs as at 30 June 2020 and 30 June 2019. The land was valued on an open market value basis while the other assets were valued on a depreciated replacement cost basis.

There were no transfers between Levels 1, 2 and 3 in the period.

Notes (continued)

14 Prepaid operating leases	Group and Company 2019 Shs'000
Cost	
At the beginning and at the end of the year	9,960
Amortisation	
At the beginning of the year	3,522
Charge for the year	85
At end of year	3,607
Net carrying amount	6,353

The Group and Company have entered into operating lease agreements for leasing of most of its land where it extracts limestone. These leases have an average life of 952 years with a renewal option on expiry of the contract. On adoption of IFRS 16, the lease prepayment were re-classified to right-use assets to be amortised on straight line basis over the lease term as disclosed on Note 31(b). The Group assets have been charged to secure loan facilities as disclosed in Note 23.

15 Investment properties	Group and Company	
	2020	2019
	Shs'000	Shs'000
At start of year	23,794,897	27,184,752
Fair value gain/(loss)	1,114,779	(233,204)
Disposal	-	(3,156,651)
	24,909,676	23,794,897

Investment properties relate to three pieces of leasehold land (5,367 acres) held by the Group under long-term lease arrangements and a freehold parcel in Kikambala. The fair value of the investment property is based on the valuation carried out by Regent Valuers International (K) Limited independent valuers, on the basis of open market value (Level 3) as adjusted for the estimated cost of eviction of squatters as explained below. The valuer is a registered valuer and has recent experience in the location and the category of the investment property being valued.

The Group assets have been charged to secure loan facilities as disclosed in Note 23.

Approximately 40% of the investment properties are currently occupied by squatters. The Company continues to pursue several avenues to reclaim the occupied properties. The estimated costs of evicting squatters amounting to Shs 376,904,000 has been adjusted in arriving at the fair value of investment properties.

Management has used significant judgement and assumptions in determining the appropriateness of classification of the encroached land as investment property and in arriving at the cost of evicting squatters. Given the subjective nature of the estimates it is possible that outcomes that are different from the assumption could require a material adjustment to the carrying amount of the asset. The main estimates and assumptions related to:

- the period required to evict the squatters;
- security resources required and their cost;
- legal costs.

Despite the encroachment, the Directors believe that the land occupied by squatters has an economic value to the Group based on the offers already received for it and a commitment from the Government to facilitate eviction as necessary. It is therefore appropriate to continue classifying the land as investment property.

Notes (continued)

16 Investment in subsidiary

Company	Beneficial ownership	Country of incorporation	2020	2019
			Shs'000	KShs'000
East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

The principal activity of the subsidiary is the sale of cement purchased from the parent company. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The subsidiary has not issued any preference shares.

There were no restrictions (statutory, contractual and regulatory restrictions) on the Group's ability to access or use the assets and settle liabilities of the Group.

17 Other liabilities

As part of its asset and liability management, the Group and Company used derivatives for hedging purposes in order to reduce its exposure to foreign currency risks. This was done by engaging in currency swaps. Currency swaps relate to contracts taken out by the Group with a financial institution in which the Group either receives or pays cross currency to the financial institution. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

During the year ended 30 June 2018, the group terminated the arrangement with Stanbic Bank and initiated a mark to market net settlement of the swap arrangement resulting in a payable position of Kshs 186,220,000 as at 30 June 2018. The liability amounted to Shs 203,910,000 as at 30 June 2020 (2019: Shs 188,910,000). This liability is disclosed as part of trade and other payables on Note 26.

The table below shows the movement of the liability.

	Group and Company Shs'000
At 1 July 2019	188,910
Interest expense (Note 10)	7,000
Foreign exchange loss (Note 10)	8,000
	<hr/>
At 30 June 2020	203,910

18 Cash and cash equivalents

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Bank balances	60,034	6,983	59,059	6,037
Cash on hand	9,599	11,014	522	1,947
Short-term deposits	11,891	43,278	11,891	43,278
	<hr/>	<hr/>	<hr/>	<hr/>
	81,524	61,275	71,472	51,262

Notes (continued)

18 Cash and cash equivalents (continued)

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits at 30 June 2020 was 6% (2019 – 10.5%).

19 Inventories

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Consumables	970,087	1,037,399	970,087	1,037,399
Raw materials	105,037	74,932	105,037	74,932
Work-in-progress	16,733	4,256	16,733	4,256
Finished products	65,653	55,551	65,653	55,325
	<u>1,157,510</u>	<u>1,172,138</u>	<u>1,157,510</u>	<u>1,171,912</u>
Provision for obsolete inventories	(45,343)	(40,665)	(45,343)	(40,665)
	<u>1,112,167</u>	<u>1,131,473</u>	<u>1,112,167</u>	<u>1,131,247</u>

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,218,666,000 (2019: 1,350,286,000) for the Group and Company.

No inventory was written off in the current year.

The Group assets have been charged to secure loan facilities as disclosed in Note 23.

20 Trade and other receivables

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Gross trade receivables	427,906	430,022	378,368	392,726
Impaired trade receivables	(412,329)	(391,880)	(361,716)	(341,267)
	<u>15,577</u>	<u>38,142</u>	<u>16,652</u>	<u>51,459</u>
Net trade receivables				
Other receivables	70,831	66,021	36,956	29,579
Amount due from related parties (Note 33(iii))	1,087,793	2,271,455	1,087,793	2,282,337
	<u>1,174,201</u>	<u>2,375,618</u>	<u>1,141,401</u>	<u>2,363,375</u>
Amount due from related parties				
Gross amount due from related parties	1,131,804	2,271,455	1,494,653	2,641,801
Impairment	(44,011)	-	(406,860)	(359,464)
	<u>1,087,793</u>	<u>2,271,455</u>	<u>1,087,793</u>	<u>2,282,337</u>
Net due from related parties (Note 33 (iii))				

Notes (continued)

20 Trade and other receivables(continued)

In the opinion of the directors, the carrying amounts of the receivables approximate their fair value.

The closing loss allowances for trade receivables as at 30 June 2020 reconcile to the opening loss allowances as set out below;

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Opening loss allowance	391,880	379,378	341,267	331,742
Increase in loss allowance recognized through profit or loss	20,449	12,502	20,449	9,525
Closing loss allowance	412,329	391,880	361,716	341,267

21 Share capital and reserves

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Share capital				
Authorised: 126,000,000 shares of Shs 5 each	630,000	630,000	630,000	630,000
Authorised, issued and fully paid: 90,000,000 shares of Shs 5 each	450,000	450,000	450,000	450,000
Share premium	648,000	648,000	648,000	648,000

The share premium is not distributable and represents the amounts above the par value of shares received by the company on issue of ordinary shares.

Asset revaluation reserve

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Asset revaluation reserve	1,181,352	1,360,599	1,181,352	1,360,599

The asset revaluation reserve is not distributable and is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decrease in value relates to an increase in value on the same asset previously recognised in equity.

The share premium is not distributable and represents the amounts above the par value of shares received by the company on issue of ordinary shares.

Other reserves

	Group	
	2020 Shs'000	2019 Shs'000
Foreign currency translation reserve	36,469	15,274

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of the foreign subsidiary, East African Portland Cement Uganda Limited and is not distributable.

Notes (continued)

22 Post-employment benefit obligations

The Group operates an unfunded defined benefit plan for qualifying employees. The relevant benefit provisions are derived from the collective bargaining agreement between EAPC and the Kenya Chemical and Allied Workers' Union. The end-of-service gratuity is payable to union staff on retirement at age 60, redundancy, termination, death in service or disablement. The gratuity is calculated as per the table below.

Mode of exit	Length of service	Benefit per year of service
Termination, death, disablement and retirement	Less than 1 year	Nil
	Between 1 and 10 years	25 days final basic salary
	More than 10 years	72 days final basic salary
Redundancy	All periods	One month's final basic salary in addition to benefit payable on termination

The table below outlines where the group's post-employment amounts and activity are included in the financial statements

(i) The amounts recognised in the statement of financial position are as follows:

	Group		Company	
	2020	2019	2020	2019
	Shs'000	Shs'000	Shs'000	Shs'000
Staff gratuity – current	1,346,737	-	1,346,737	-
Staff gratuity – non-current	146,176	1,192,486	146,176	1,192,486
	<u>1,492,913</u>	<u>1,192,486</u>	<u>1,492,913</u>	<u>1,192,486</u>

The current liability portion relates to benefit obligation for redundant employees as at 30 June 2020

(ii) The following table analyses the components of defined benefit costs recognised in comprehensive income;

	Group and Company	
	2020	2019
	Shs'000	Shs'000
Current service cost	129,969	134,456
Net interest expense	140,358	138,805
Component of defined benefit costs recognised in profit or loss	<u>270,327</u>	<u>273,261</u>
Actuarial losses/(gains) arising from changes in demographic and financial assumptions recognised in other comprehensive income	<u>24,915</u>	<u>(131,801)</u>
	<u>295,242</u>	<u>141,460</u>

(iii) The tax relating to components of other comprehensive income is as follows:

	Group and Company		
	Before tax	Tax charge	After tax
	Shs'000	Shs'000	Shs'000
Year ended 30 June 2020			
Actuarial losses –expert valuations	24,915	(6,229)	18,686
	<u>24,915</u>	<u>(6,229)</u>	<u>18,686</u>

Notes (continued)

22 Post-employment benefit obligations(continued)

Year ended 30 June 2019-	Group and Company		
	Before tax Shs'000	Tax charge Shs'000	After tax Shs'000
Actuarial gains –expert valuations	131,801	(39,540)	92,261

The movement in the defined benefit obligation over the year is:

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
At start of year	1,192,486	1,064,644	1,192,486	1,064,644
Current service cost	129,969	134,456	129,969	134,456
Net interest expense	140,358	138,805	140,358	138,805
Actuarial (gains)/ losses arising from changes in assumptions	24,915	(131,801)	24,915	(131,801)
Benefit paid	(487,034)	(13,618)	(487,034)	(13,618)
Losses on curtailment and settlement	492,219	-	492,219	-
At end of year	1,492,913	1,192,486	1,492,913	1,192,486

The significant actuarial assumptions used were as follows:

	Group and Company	
	2020 Shs'000	2019 Shs'000
Discount rate (%)	13%	13.3%
Average salary escalation rate (%)	10%	11.7%

For each of the above significant actuarial assumptions, a sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant:

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease/(increase) by Shs 14,027,000.
- A 1% increase/decrease on the salary escalation rate would not have a material impact on defined benefit obligation as at 30 Jun 2020.

For the above sensitivity analysis, the present value of the defined benefit obligation has been determined using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in the statement of financial position. Such sensitivity analysis might not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another.

Notes (continued)

23 Borrowings

The borrowings are analysed as follows;

	Group and Company	
	2020	2019
	Shs'000	Shs'000
Term loan	6,040,524	-
Government debt (Note 33)	1,483,077	1,079,799
Asset financing loan	-	3,657,565
Post import finance loan	-	433,860
Japanese loan	-	339,590
Insurance premium financing	-	16,975
	<hr/>	<hr/>
Total borrowings	7,523,601	5,527,789
	<hr/>	<hr/>
Current portion of borrowings	7,523,601	5,527,789
	<hr/>	<hr/>
Non-current portion of borrowings	-	-
	<hr/>	<hr/>

Reconciliation of liabilities arising from financing activities

	Group and Company	
	2020	2019
	Shs'000	Shs'000
At start of year	5,527,789	4,618,705
Additions during the period	1,375,065	1,439,755
Interest charged to profit or loss	721,057	482,289
Principal and interest repayments	(144,305)	(1,054,249)
Foreign exchange (loss)/gain	43,995	(22,216)
Penalties on late repayment	-	63,505
	<hr/>	<hr/>
	7,523,601	5,527,789
	<hr/>	<hr/>

Japanese loan

The total loan from Overseas Economic Co-operation Fund of Japan (JICA) is JPY 7.67 billion. The interest charged in the loan is 2.5% per annum. The loan is guaranteed by the Kenya government.

There is no Group or Company assets pledged as security, and neither are there any covenants attached the loan facility.

The loan is repayable in instalments which are paid twice a year, on 20 March and 20 September with effect from 20 September 2000. The last repayment was made on 20 March 2020.

KCB loan facilities

(i) Asset finance loan

These are two term loan facilities with Kenya Commercial Bank (KCB). The facilities have an aggregate approved limit of Shs 3,269,692,000 as at 30 June 2020. Amounts drawn and outstanding are due and repayable strictly on demand. The interest charged on the facilities is Central Bank Rate(CBR) plus a margin of 4%

Notes (continued)

23 Borrowings(continued)

(ii) Post import finance loan

The post import finance facility with KCB is for purposes of financing the Group working capital requirements. Each tranche drawn under the Post Import Finance Facility shall be repaid within a maximum period of 180 days from the date of drawdown.

(iii) Insurance premium finance (IPF)

The IPF facility caters for the Group's insurance needs. The facility has an approved limit of Shs 25 million. The interest charged on the facility is Central Bank Rate(CBR) plus a margin of 4%.

The penalties on late repayment on all KCB loan facilities is charged at rate of 10% per annum over and above the CBR plus 4% margin payable by the Group.

(iv) Term Loan

The Group breached repayment covenants on above three working capital facilities provided by KCB. Consequently, KCB recalled the outstanding debt under all the facilities. The Group entered into a settlement deed with KCB on 18 October 2019. The settlement deed required consolidation of outstanding debts under all the facilities into one term loan and provided a one-year moratorium of repayments of outstanding principal and interest. The moratorium period is expected to end in October 2020.

The term loan and composite working capital facilities are secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, and Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of Shs 4,224,000,000.

The Company sought shareholder approval through an Extraordinary General Meeting held on 27th September 2019 on sale of investment property (LR 8784\4 & LR 8786) to retire all KCB debt.

Government of Kenya debt

The loan amount due to the government of Kenya accumulates from the interest and principal repayments made on the Japanese loan by the Government of Kenya on behalf of the Group as the loan guarantor. The Group records the loan repayments as additions to the debt payable to the government. There are no written terms with the government on repayment of the debt due. Consequently, the outstanding debt was classified as current liability as at 30 June 2020.

24 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 25% (2019: 30%). The movement on the deferred income tax account is as follows:

	Group and Company	
	2020	2019
	Shs'000	Shs'000
At start of year	39,540	(392,755)
Credit to profit or loss (Note 11)	-	(1,335,789)
Charge to other comprehensive income (Note 22)	(6,229)	39,540
Deferred tax asset (credited)/ written off	(33,311)	1,728,544
	<hr/>	<hr/>
At end of year	-	39,540
	<hr/>	<hr/>

Notes (continued)

24 Deferred income tax (Continued)

Group and Company

Year ended 30 June 2019	1 July 2018 Shs'000	Charge/ (credited) to Profit and loss Shs'000	Charge to OCI Shs'00	At 30 June 2019 Shs'000
Deferred tax liabilities				
Property, plant and equipment	2,103,244	(444,109)	-	1,659,135
Investment properties	1,359,238	(169,494)	-	1,189,744
	3,462,482	(613,603)	-	2,848,879
Deferred tax assets				
Tax losses carried forward	(2,746,949)	(594,266)	-	(3,341,215)
Other temporary differences	(1,108,288)	(127,920)	39,540	(1,196,668)
	(3,855,237)	(722,186)	39,540	(4,537,883)
Net deferred income tax asset	(392,755)	(1,335,789)	39,540	(1,689,004)
Deferred tax written off	-	1,728,544	-	1,728,544
Net deferred income tax liability(asset)	(392,755)	392,755	39,540	39,540
Year ended 30 June 2020	At 1 July 2019 Shs'000	Charge/ (credited) to Profit and loss Shs'000	Charge to OCI Shs'00	At 30 June 2020 Shs'000
Deferred tax liabilities				
Property, plant and equipment	1,659,135	(387,374)	-	1,271,761
Investment properties	1,189,744	55,740	-	1,245,484
	2,848,879	(331,634)	-	2,517,245
Deferred tax assets				
Tax losses carried forward	(3,341,215)	(100,286)	-	(3,441,501)
Other temporary differences	(1,196,668)	(144,956)	(6,229)	(1,347,853)
	(4,537,883)	(245,242)	(6,229)	(4,789,354)
Net deferred income tax asset	(1,689,004)	(576,876)	(6,229)	(2,272,109)
Deferred tax written off/not recognised	1,728,544	543,565	-	2,272,109
Net deferred income tax liability(asset)	39,540	(33,311)	(6,229)	-

Notes (continued)

24 Deferred income tax (Continued)

The aging of the deferred tax asset arising from tax losses is shown below:

Financial Year incurred	Tax asset (Shs '000)
2008/09	43,296
2009/10	98,134
2010/11	260,600
2011/12	62,180
2014/15	621,896
2015/16	674,989
2016/17	293,823
2017/18	692,031
2018/19	594,266
2019/20	100,286
	<hr/>
Total	3,441,501
	<hr/>

Deferred tax asset arising from tax losses were assessed at the end of the reporting period and were written off to the extent that it was not probable that future taxable profit will allow the deferred tax asset to be recovered based on projected financial performance.

25 Bank overdraft

	Group and Company	
	2020	2019
	Shs'000	Shs'000
KCB Bank Kenya Limited	-	1,194,437
	<hr/>	<hr/>
Interest expense on bank overdraft	-	149,146
	<hr/>	<hr/>

The Group has an overdraft facility with the KCB Bank Kenya Limited. The facility had an approved limit of Shs 970,000,000 as at 30 September 2020(June 2019; Shs 970,000,000) and was consolidated into one loan following approval of a settlement deed on 18 October 2019. (refer to Note 24)

The overdraft facility is secured by an all asset debenture over all the assets of the Company and a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767 and 8786, and a fixed and floating debenture over the company's assets to an aggregate value of Shs 4,224,000,000.

The bank has recalled all debt outstanding on the Group due to late repayment

The carrying amount of the bank overdraft approximates to the fair value. The effective interest rate at the reporting date was 13% (2019: 13%).

Notes (continued)

26 Trade and other payables

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Trade payables	1,679,341	3,469,713	1,679,341	3,469,713
Other payables and accruals	3,224,383	2,735,720	3,220,482	2,731,940
Due to related parties	1,958,958	518,557	1,958,958	518,557
Advance receipts from customers	181,606	52,295	181,606	52,295
Other liabilities (Note 17)	203,910	188,910	203,910	188,910
At end of year	7,248,198	6,965,195	7,244,297	6,961,415

Trade and other payables are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The carrying amounts of the above trade and other payables approximate their fair values.

27 Dividend payable

	Group and Company	
	2020 Shs'000	2019 Shs'000
Dividend payable	101,680	101,680

28 Cash generated from operations

Reconciliation of loss before income tax to cash generated from operations

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Loss before taxation	(2,798,610)	(2,961,898)	(2,797,729)	(2,927,615)
Adjustments for:				
Depreciation of PP&E (Note 13)	533,758	536,544	533,758	536,537
Depreciation of right-of-use assets (Note 31)	12,016	-	12,016	-
Amortisation on prepaid operating leases (Note 14)	-	85	-	85
Impairment of work in progress	15,397	17,964	15,397	17,964
Profit on disposal of investment properties	-	(1,634,876)	-	(1,634,876)
Gain of unwinding of Kenya Railways receivable (Note 9)	(55,960)	-	(55,960)	-
Gain/(loss) on disposal of PP&E	(6,154)	24,502	(6,154)	24,502
Fair value (gain)/ loss on investment property (Note 15)	(1,114,779)	233,304	(1,114,779)	233,304
Net foreign exchange loss/(gain)	51,123	(41,729)	29,928	(22,584)
Increase in provision for penalties	-	63,505	-	63,505
Interest expense on borrowings (Note 23)	721,057	482,289	721,057	482,289
Interest expense on bank overdraft (Note 25)	-	149,146	-	149,146
Interest on other liabilities (Note 17)	7,000	6,582	7,000	6,582
Interest income	(1,456)	(3,059)	(1,456)	(3,059)
Foreign exchange loss on other liabilities (Note 17)	8,000	53,571	8,000	53,571
Post-employment benefits service cost	270,327	273,261	270,327	273,261
Interest on lease liabilities (Note 31)	6,252	-	6,252	-
Losses on curtailment and settlement	492,219	-	492,219	-

Notes (continued)

28 Cash generated from operations (continued)

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Operating loss before working capital changes	(1,859,810)	(2,800,809)	(1,880,124)	(2,747,388)
Changes in working capital;				
Inventories	19,306	117,191	19,080	115,866
Trade and other receivables	61,767	199,037	82,324	139,463
Trade and other payables	283,003	969,964	282,882	970,859
Cash used in operations	(1,495,734)	(1,514,617)	(1,495,838)	(1,521,200)

The computation of changes in working capital excludes, the movement of receivable balances due from Kenya Railways of shs 1,139,650,000 as per Note 33(iii).

For the purpose of statement of cashflows, cash and cash equivalent comprise the following

	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Analysis of cash and cash equivalents				
Short term deposits (Note 18)	11,891	43,278	11,891	43,278
Cash and cash equivalents (Note 18)	69,633	17,997	59,581	7,984
Bank overdraft (Note 25)	-	(1,194,437)	-	(1,194,437)
	81,524	(1,133,162)	71,472	(1,143,175)

29 Contingent liabilities

(i) Tax Assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company covering corporate tax, employee taxes, withholding tax and VAT for the period from 2005 to 2008 and raised an assessment on the company of Shs 2.5 billion on the tax heads mentioned above. Out of this assessment, Shs 1.7 billion has been solved with the tax authorities. The company has paid Shs 122 million and appealed against a further Shs 473 million through the local committee, which subsequently ruled in favour of the company. KRA however filed a notice to appeal in the High Court against the Local Committee ruling. The substantive appeal to the High Court has however not been filed by KRA. The view of directors is that no additional liabilities will arise from these matters.

(ii) Litigation and claims

The Group is a defendant in various legal actions and claims made by third parties. In the opinion of the directors, after taking appropriate legal and other advice, no material liabilities are expected to crystallise from these claims. Refer to Note 2 (a) for more details on specific legal claims.

30 Capital commitments

	Group and Company	
	2020 Shs'000	2019 Shs'000
Authorised by the directors but not contracted for	376,000	1,017,000

Notes (continued)

31 Leases

The Company has adopted IFRS 16 from 1 July 2019 but has not restated comparatives for the year ended 30 June 2019, as permitted under the specific transitional provisions in the standard. Upon adoption, the reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Lease liabilities have been recognised on initial application of the standard.

(a) Lease liabilities

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 13%.

	Group and Company Shs'000
Movement of lease liabilities:	
At 1 July 2019	66,664
Interest expense on lease liability (Note 31(a))	6,252
Payments of principal portion of the lease liability	<u>(15,555)</u>
At 30 June 2020	<u>57,361</u>
Maturity analysis of the lease liabilities recognised on 30 June 2020:	
Current lease liabilities	23,552
Non-current lease liabilities	<u>33,809</u>
	<u>57,361</u>

(b) Right of use assets

Upon adoption of IFRS 16, the right-of-use assets were measured at an amount equal to the lease liabilities.

	Group and Company Shs'000
Movement of lease assets:	
At 1 July 2019	66,664
Depreciation charge	(12,016)
Lease prepayments amortised on a straight-line basis.	6,023
	<u>60,671</u>
At 30 June 2020	<u>60,671</u>

Notes (continued)

32 Effect of change of accounting policy – leases

As explained in Note 2(i), the Group changed its accounting policy for leases where the Group is lessee. The new policy is described in Note 2(i). As permitted by the transition provisions in the new standard, comparative amounts have not been restated. The Company's accounting policy for leases under which the Company was lessee was, up to 30 June 2019, as described in Note 2(i).

Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 July 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described in Note 2(i). The resulting adjustment passed at 1 July 2019 as a result of applying IFRS 16, was as follows:

	1 July 2019 Shs '000
Lease liabilities	(66,664)
Right-of-use assets	66,664
	<hr/>
Net adjustment to retained earnings at 1 July 2019	-
	<hr/>

33 Related party transactions

The Group is listed on the Nairobi Securities Exchange. The main shareholders were as follows;

Shareholder	Group and Company	
	2020	2019
Bamburi Cement Limited	12.5%	12.5%
Cementia Holding	14.6%	14.6%
Associated international Cement	14.6%	14.6%
The National Treasury	25.3%	25.3%
National Social Security Fund	27%	27%
Other investors	6%	6%
	<hr/>	<hr/>
	100%	100%
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The Company is related to other companies through common shareholding or common directorships.

The following transactions were carried out with related parties. These related parties represent entities with which the Company has common shareholders and directors.

	Group		Company	
	2020	2019	2020	2019
(i) Sale of goods and services	Shs'000	Shs'000	KShs'000	Shs'000
East African Portland Cement Uganda	-	-	-	25,456
Kenya Railways Corporation	-	5,200,000	-	5,200,000
	<hr/>	<hr/>	<hr/>	<hr/>
	-	5,200,000	-	5,225,456
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

33 Related party transactions (continued)

(i) Sale of goods and services (continued)

The transaction with Kenya Railways Corporation is from the sale of investment properties during the year ended 30 June 2019. The amount is receivable over a period of 3 years. The receivable balance disclosed in Note 33 (iii) has been discounted to arrive at the present value as at 30 June 2020.

(ii) Purchase of goods and services

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
National Social Security Fund	2,967	3,710	2,967	3,710
National Health Insurance Fund	11,617	16,286	11,617	16,286
Kenya Revenue Authority	567,475	518,557	567,475	518,557
The National Treasury	359,283	344,770	344,770	344,770
	<u>941,323</u>	<u>883,323</u>	<u>941,323</u>	<u>883,323</u>

(iii) Due from related parties:

Non-current

Kenya Railways Corporation	860,985	1,645,709	860,985	1,645,709
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Current

Kenya Railways Corporation	804,390	1,944,040	804,390	1,944,040
Kenya National Highway Authority	283,403	327,415	283,403	327,415
The East African Portland Cement Company Uganda Limited	-	-	-	10,882

	<u>1,087,793</u>	<u>2,271,455</u>	<u>1,087,793</u>	<u>2,282,337</u>
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	<u>1,948,778</u>	<u>3,917,164</u>	<u>1,948,778</u>	<u>3,928,046</u>
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The amount due from Kenya Railways Corporation is from the sale of investment properties during the year ended 30 June 2019. The amount is receivable in quarterly tranches of Shs 250 million. The last instalment is receivable in 30 June 2022.

(iv) Due to related parties

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Kenya revenue authority (Note 26)	1,958,958	518,557	1,958,958	518,557
The National Treasury (Note 23)	1,483,077	1,079,799	1,483,077	1,079,799
	<u>3,442,035</u>	<u>1,598,356</u>	<u>3,442,035</u>	<u>1,598,356</u>

Notes (continued)

33 Related party transactions (continued)

(v) Key management compensation

Key management includes directors (executive and non-executive) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	Group 2020 Shs'000	2019 Shs'000	Company 2020 Shs'000	2019 Shs'000
Salaries and other short-term employee benefits	37,488	69,932	37,488	69,932
Post-employment benefits	8,656	11,874	8,656	11,874
	46,144	81,806	46,144	81,806

(vi) Directors' remuneration

	Group 2020 Shs'000	2019 Shs'000	Company 2020 Shs'000	2019 Shs'000
Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments	36,730	27,301	36,730	27,301
	37,830	28,401	37,830	28,401

34 Covid-19 impact assessment

The discovery and spread of coronavirus (COVID – 19) has resulted into global pandemic. Government have taken measures such as restriction of movement of people to control the spread of the virus. This have led to subdued economic activity resulting a significant decline in aggregate demand of goods and services. The company's post year end top line has been directly impacted as a result of declining consumer purchasing power with post-year end performance being 40% behind budget.

The company was also affected by disruption in the international supply chain that adversely affected procurement of goods and services required to support the business from overseas suppliers. The business was further adversely impacted by depreciation of the Kenya Shilling against major currencies. The distribution of our product throughout the country slowed down.

The aggregate impact of COVID – 19 necessitated a downward revision of forecasted volumes by 30%, with a 40% impact on realised volumes compared to budget thus far. We have assessed the impact of the global COVID-19 pandemic and whereas the situation is still evolving, the Board and management continue to monitor the impact of the pandemic closely.

In the short term, focus is on value chain controls to support the top line complemented by conclusion of the final phase of staff rationalization programme and balance sheet restructuring within the next 12 months which will unlock funding for medium term initiatives.

The Board, through the Management taskforce on COVID – 19, instituted measures to safeguard the well-being of all stakeholders of EAPC Plc in compliance with Government directives. There have been no immediate material shocks to our business that require adjustments or disclosures in the financial statements for the year ended 30 June 2020.

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