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**THE AUDITOR-GENERAL**

**ON**

**EAST AFRICAN PORTLAND  
CEMENT PLC**

**FOR THE YEAR ENDED  
30 JUNE, 2023**



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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**EAST AFRICAN PORTLAND CEMENT PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2023**

**EAST AFRICAN PORTLAND CEMENT PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2023**

East African Portland Cement Plc  
Annual Report and Financial Statements  
For the year ended 30 June 2023

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East African Portland Cement Plc  
Corporate information  
For the year ended 30 June 2023

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<b>DIRECTORS</b>	Brig. (Rtd) Richard K. Mbithi	Chairman; Appointed 1 July 2023
	Edwin M. Kinyua, EBS	Chairman; Resigned 30 June 2023
	Oliver Mwandigha Kirubai	Managing Director
	Kungu Gatabaki	
	Patrick Koinari Ole Tutui	Appointed 1 July 2023
	Prof. Sarone Ole Sena	
	Hon. Prof. Njuguna S. Ndungu, EGH	Cabinet Secretary, National Treasury (Alternate Director – Edward Wamweya)
	David Koross ; Appointed 27 May 2023	Representative of National Social Security Fund (NSSF); Appointed 27 May 2023
	Dr. Antony Omerikwa; Resigned 26 May 2023	(Alternate Director – Moses Cheseto and David Mwangangi)
	Dr. Eusebius Juma Makwana	Principal Secretary, State Department for Industrialization, Ministry of Investments, Trade and Industry (Alternate Director – Nancy Muya and Timothy Gakuu)
<b>SECRETARY</b>	Florence Mitey Certified Public Secretary (Kenya) P. O. Box 40101 – 00100 Nairobi	
<b>REGISTERED OFFICE</b>	L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 – 00100 Nairobi	
<b>REGISTRARS</b>	Haki Registrars P. O. Box 40868 – 00100 Nairobi	
<b>BANKERS</b>	KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 30081 – 00100, Nairobi	Standard Chartered Bank Kenya Kenyatta Avenue P. O. Box 30003 – 00100, Nairobi
	Citibank, N.A, P. O. Box 30711 – 00100. Nairobi	Co-operative Bank of Kenya Limited P. O. Box 321 – 00204, Athi River
	Stanbic Bank Limited Kimathi Street P. O. Box 30550 – 00100 Nairobi	Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 711, Kampala
	Equity Bank Limited Kenyatta Avenue P. O. Box 104860 – 00100, Nairobi	KCB Bank Uganda Limited 6 <sup>th</sup> Street Industrial Area P. O. Box 28568 Kampala
<b>PRINCIPAL AUDITOR</b>	The Auditor General Anniversary Towers P. O. Box 30084 – 00100 Nairobi	
<b>DELEGATED AUDITOR</b>	PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/ Chiromo Road, Westlands P O Box 43963 – 00100, Nairobi	

I am pleased to present to you the Annual Report and Financial Statements for the year ended 30 June 2023, as well as to welcome all our esteemed shareholders to the 91st Annual General Meeting of East African Portland Cement Plc.

### **Economic Outlook**

Global GDP growth is expected to slow from 3.6% in 2022 to 3.0% in 2023. This slowdown is being driven by a number of factors, including the ongoing war in Ukraine, rising interest rates, and persistent supply chain disruptions. Inflation is expected to remain elevated in 2023, but is forecast to start to decline in the second half of the year. The IMF projects that global headline inflation will average 6.8% in 2023, down from 8.7% in 2022. Central banks around the world are raising interest rates in an effort to combat inflation. This is expected to weigh on economic activity in the short term, but could help to bring inflation under control in the medium term. A number of additional factors which may have an impact on the world economy in this time are also identified by the indicators listed above. The consequences of the war in Ukraine, a faster pace of tightening of macroeconomic policy in the United States and around the globe, severity of supply chain disruptions, Chinese economy's activity and commodity price outlook are also included.

In light of the sluggish worldwide economic growth, Kenya's economy is predicted to maintain its strength in 2023, bolstered by a strong showing in the services sector and an anticipated rebound in agriculture. The agriculture industry is expected to recover in 2023 after two successive years of contraction, thanks to favorable weather conditions and government-subsidized fertilizers. However, growth in 2023 may be hindered by a decrease in domestic demand due to rising inflation and persistent high interest rates, which could dampen private investment. The depreciation of the Kenyan Shilling against the US Dollar is expected to make imports costly and hinder trade with other nations. Furthermore, a predicted drop in global demand caused by a slowdown in the international economy may lead to diminished interest in Kenyan products.

### **Cement Market and Competition**

Local cement market faced headwinds driven by depreciation of the Kenya Shilling manifested through increased landed costs of coal and clinker, also impacting electricity prices. Given that thermal energy costs constitute close to 30% of cost of sales, the significance of these increases cannot be overstated. Furthermore, global oil supply shocks emanating from the ongoing war in Ukraine, coupled with removal of subsidies on fuel, led to increase in input and distribution costs. That notwithstanding, cement consumption experienced a 5.5% year on year increment by close of 2022 and is projected to grow at a similar rate by end of 2023. Recent developments around the region including announcements by the State Department of Transport on expansion of the Standard Gauge Railway to Kisumu, Malaba and Isiolo by June 2027 continue to justify significant capital inflows into the cement manufacturing sector. Increased input prices coupled with intensified competition against the backdrop of new market entrants remains an area of concern. We have continued with the pursuit of our strategic market share aspirations backed by market regeneration efforts and remain steadfast in pursuit of not less than 20% market share in the medium term

### **Performance**

The 90<sup>th</sup> year of operation began with completion of the first phase of plant refurbishment programme, where the kiln shell was replaced in September 2022. This led to improved clinker and cement production, in spite of minimal activity in the first quarter of the financial year during the shutdown period. Consequently, revenue during the period increased by 38%. Increased plant throughput coupled with higher input prices as elaborated above resulted in a 34% increase in cost of sales. The business continues to mine from its brand equity and rich history, with the flagship brand Blue Triangle Cement being a preferred brand in the country.

### **Dividend**

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

## **Our Focus**

The Board is committed to steering the company back to sustainable profitability. To achieve this, we are pursuing an elaborate approach that includes:

- (i) Increasing cement production capacity by upgrading our kiln and milling facilities.
- (ii) Reducing costs across the board, including by improving operational efficiency and cutting administrative overheads.
- (iii) Partnering with the government and other stakeholders to deliver on Kenya's housing and infrastructure needs.
- (iv) Securing funding for plant modernization by disposing of idle land.

We are confident that these measures will help us to achieve our turnaround goals.

## **Corporate Strategy**

The Company has embarked on the diligent execution of its ambitious 5-Year Strategic Plan, a decisive step aimed at reshaping its future. This strategic blueprint, having received the unanimous approval of our esteemed Board of Directors, is anchored upon five fundamental pillars namely Operational excellence, Market Regeneration and Customer Centrism, Financial sustainability, People and a Better Planet. This Strategy will unfold in two phases: the first phase, named the 'New Dawn' Phase, is expected to span 18 months, followed by the 'Grow and Sustain' Phase, which will extend over 3.5 years. With the full realization of this Strategy, we eagerly anticipate steering the company toward a robust and sustainable profitability trajectory, thereby delivering significant value to our cherished shareholders. Among its myriad of purposes, this Strategy is poised to achieve the following commendable objectives:

- i) Serve as the North Star, ensuring the harmonious alignment of all key institutional initiatives with our strategic vision.
- ii) Emerge as the succinct and powerful mantra that defines our organization, inspiring excellence at every level.
- iii) Offer invaluable assistance in the meticulous planning and allocation of resources. Given the unique challenges surrounding the Company, we have embraced a phased execution approach. The initial eighteen months will witness a profound transformation of the Company, while the subsequent strategic period will be dedicated to fortifying and expanding the company.
- iv) Play a pivotal role in the formulation of comprehensive Key Performance Indicators (KPIs), which will serve as the compass guiding our dedicated employees towards exemplary achievements.

## **Financing Strategy**

Our financing strategy revolves around disposal of dormant land assets to fuel our pivotal strategic initiatives. As stewards of prudent fiscal stewardship, we recognize that our organization's land holdings represent latent potential, capable of being harnessed to power our ambitious growth trajectory. The Board Finance, Technical, and Strategy Committee plays a pivotal role in this dynamic process as a proactive driver of financial acumen and strategic foresight. Through periodic appraisals, this esteemed committee ensures that the divestiture of idle land aligns seamlessly with our overarching corporate strategy. It ensures that each transaction is meticulously calibrated to optimize financial gains while minimizing risk exposure. The strategic disposal of idle land is not a mere financial transaction; it is a transformational maneuver. The proceeds harvested from these transactions are channeled with precision to fortify our key strategic imperatives. Whether it is bolstering our market presence, upgrading operational capabilities, nurturing innovation, or enhancing our commitment to sustainability, these funds act as the lifeblood of our corporate vision.

In the corporate landscape, agility is paramount, and our financing strategy exemplifies this ethos. It embodies not just the efficient allocation of resources but the strategic deployment of our latent assets. Through our judicious land disposal endeavors, we infuse our strategic initiatives with the vitality needed to thrive in today's ever-evolving business terrain. It is not merely a financial strategy; it is a manifestation of our commitment to dynamism, innovation, and sustained growth.

## **Corporate Governance**

The Company remains committed to enhancing its governance framework, underscoring its dedication to responsible corporate citizenship and the well-being of its stakeholders. The Board has persistently pursued the implementation of comprehensive governance protocols, aimed at ensuring the highest standards of accountability and transparency. In this regard, the Board is supported by active board committees, each furnished with meticulously delineated terms of reference. In our commitment to impartiality and objective oversight, it is noteworthy that all directors, with the exception of the Managing Director, maintain their independence. These directors, while exercising their fiduciary duties diligently, engage in regular dialogues with senior management to scrutinize and enhance the corporate strategy.

At the heart of our governance framework lies the Board Charter, an instrumental document that elucidates the norms governing the interactions between the Board and other stakeholders. It serves as an invaluable compass for our corporate conduct, reinforcing our commitment to principled governance. Notably, every member of our workforce subscribes to a code of conduct, a pact that not only fosters harmonious interactions among employees but also regulates our engagements with external stakeholders. This commitment to ethical behavior permeates every facet of our operations, ensuring that we uphold the highest standards of integrity and responsibility in all our endeavors.

In sum, our unswerving dedication to governance excellence extends across all tiers of our organization, affirming our pledge to act as a steadfast and conscientious corporate entity, safeguarding the interests of our diverse stakeholder community.

## **The Board**

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

## **Appreciation**

As a representative of the Board of Directors, I wish to convey our heartfelt appreciation to our esteemed shareholders for their resolute commitment and loyalty. We recognize the vital role you play in our journey, and your continued contributions are invaluable. We extend our profound gratitude to our dedicated Board for their visionary leadership. Their unwavering commitment is instrumental in steering our organization towards greater heights. To the National Government, we extend our sincere thanks for your enduring support and invaluable guidance. Your partnership is integral to our success. A special acknowledgment goes to our exceptional Management and the entire staff of EAPC Plc. Your tireless dedication to the implementation of our company's business plan is the bedrock of our accomplishments. We would also like to express our gratitude to all our esteemed business partners and loyal customers. Your unwavering support for the Blue Triangle Cement brand is the cornerstone of our success. Together, we continue to build a brighter future.

In closing, we look forward to the continued synergy of all our stakeholders as we strive for excellence and growth in the times ahead. Thank you for being an integral part of our journey.

**Brig. (Rtd) Richard K. Mbithi**  
Chairman of the Board of Directors

## **Business Performance**

It is a distinct privilege to communicate with you and offer an insightful update on the diverse array of strategies we have been diligently implementing to reshape the prospects of East African Portland Cement Plc. While we fully recognize the multifaceted challenges that have beset us, both from within and external to our organization, I remain steadfast in my conviction that these challenges are indeed surmountable. Throughout this reporting period, we grappled with several noteworthy challenges. These included the depreciation of the Kenyan Shilling, primarily driven by a sustained surge in interest rates in Western markets, thereby impacting our input and distribution costs. Furthermore, the political landscape was marked by uncertainty stemming from contested elections and ensuing political discord, often manifesting in demonstrations that significantly disrupted the overall business climate. These events, in turn, delayed critical investment decisions and inadvertently postponed the realization of proceeds from balance sheet restructuring.

However, against this backdrop, the Company embarked on the first phase of an extensive plant refurbishment during the initial quarter of the reporting period, culminating in the successful replacement of the kiln shell. This strategic move addressed a pivotal bottleneck hindering the attainment of operational excellence, ultimately leading to an impressive increase in production volumes by over 20% within nine months of operation. Consequently, this substantial boost in production volumes translated into a remarkable 38% surge in revenue, as our market rejuvenation efforts were significantly bolstered by enhanced product availability.

It is important to note that the cost of sales saw a 34% increase, attributable to both the improved plant throughput and the rising input costs, a consequence of the currency depreciation. This did diminish some of the gains derived from our improved plant efficiency, driven by the diligent implementation of our strategic initiatives. Furthermore, the delayed realization of proceeds from the sale of land exacerbated our working capital conditions, resulting in plant throughput falling below target, which in turn led to a persistence of the gross loss position of Shs 956 million (2022:782 million)

Our unwavering focus remains steadfastly fixed on pursuing the aspirations outlined in our strategic plan. This drive is further underpinned by our commitment to expedite the conclusion of balance sheet restructuring, a process expected to reach completion by the end of June 2024. We are resolute in our determination to overcome the challenges and to steer our company toward a brighter and more prosperous future.

## **Corporate Strategy**

The Company is currently in the active phase of executing its five-year strategic plan, a blueprint that received the unanimous approval of our Board of Directors. This strategic endeavor is built on the core objective of revitalizing the company and steering it toward a profitable and sustainable future. Implementation of the 'New Dawn' phase thus far has led to achievement of key milestones across all five pillars as highlighted below:

1. Achieving Operational Excellence – Kiln shell replacement completed in September 2022 improving plant throughput.
2. Revitalizing the Market and Prioritizing Customer-Centric Approaches – Targeted marketing activities to revitalize the Company's route to market.
3. Ensuring Financial Sustainability – Retirement of Corporate debt facility in November 2022 (Total debt settled KES 1.8 billion)
4. Cultivating a Productive, Competent, and Engaged Workforce – Quick win KPIs rolled out tied to corporate scorecard leading to improved staff productivity.
5. Contributing to a Better Planet – Launch of tree planting activities, supporting communities around our areas of operation, and lowering carbon footprint through cement mix innovation and new product development (Green Triangle Cement)

### **Financial Strategy**

To achieve a turnover level that not only covers our fixed costs but also generates significant value for our shareholders, the Company is steadfastly committed to ensuring the seamless operation of its primary function: the production and sale of cement and associated products. Our foremost objective is to maintain uninterrupted plant operations to achieve optimal production capacity. The Company has identified the disposal of idle corporate assets, such as previously mined pieces of land, as a strategic avenue to generate income. In this regard, we have already initiated discussions with individuals who had encroached upon our land in Mavoko, Machakos County, with the intention of resettling them on the property through mutually agreeable arrangements. The funds generated from this sale will be directed towards working capital support and the enhancement of our plant infrastructure. This strategic move aligns with our overarching goal of augmenting our cement production capacity and delivering value to our stakeholders.

### **Effectiveness and Efficiency**

The Company remains steadfast in its commitment to implementing initiatives that bolster efficiency and competitiveness across its operations. In the forthcoming year, we are dedicated to further organizational restructuring to enhance our overall effectiveness. Our continuous drive towards operational efficiency will remain a top priority, with a strong emphasis on prudent overhead management, unwavering adherence to principles of good governance, and stringent compliance.

Furthermore, we are actively pursuing strategic investments geared towards revitalizing our plant, rendering it more dependable and efficient to amplify our production capabilities. These investments represent a pivotal component of our short-term strategies, aimed at fortifying our position in the market and ensuring sustainable growth.

### **Quality Management Process**

The Company's utmost dedication remains centered on ensuring the utmost satisfaction of our valued customers. This commitment is, in part, actualized through the production of top-tier, quality products. To maintain this high standard, we have rigorously established stringent protocols to guarantee the quality of all inputs. Furthermore, we maintain a vigilant watch over every stage of the cement manufacturing process, meticulously overseen by proficient experts.

Our unwavering adherence to the requirements of ISO 9001:2015 not only underscores our status as a certified ISO 9001:2015 organization but also underscores our dedication to a culture of continuous improvement, rigorous research and development, and a perpetual review of our processes. This systematic approach ensures that our processes and strategies remain pertinent and effective in the ever-evolving business landscape, reaffirming our commitment to delivering excellence to our customers.

### **Advocacy for a Better Planet**

Within its comprehensive 5-Year Strategic Plan, the Company has prominently recognized the importance of fostering a better planet. In recent history, numerous corporations, particularly in the manufacturing sector, have contributed to global climate change through emissions that elevate atmospheric carbon dioxide levels. The Company, operating within this industry, has identified Environment, Social, and Governance (ESG) Goals as a pivotal initiative to play its part in advancing a more sustainable planet.

East African Portland Cement Plc consistently demonstrates its unwavering commitment to enhance its environmental performance. This is achieved by embracing best manufacturing practices, adhering to international standards of environmental management, and establishing policies and programs that prioritize environmentally responsible business operations. Throughout the reporting period, as part of our earnest dedication to environmental conservation, the company actively engaged in campaigns aimed at augmenting the nation's forest cover. We contributed to this noble cause by donating seedlings and participating in tree-planting initiatives, thereby exemplifying our commitment to creating a greener and more sustainable future for all.

## Outlook

Amidst the backdrop of a sluggish global economic landscape, Kenya's economy is poised to maintain its resilience throughout 2023. This endurance is primarily driven by the robust performance of the services sector and the promising prospect of a rebound in the agricultural industry. Notably, agriculture is anticipated to recover this year, following two consecutive years of contraction, thanks to favourable weather conditions and government-subsidized fertilizers. However, it is worth noting that the economic growth trajectory for 2023 may face certain impediments. These challenges include a potential reduction in domestic demand, attributable to escalating inflation rates and persistently high interest rates, factors that could potentially discourage private investments. The depreciation of the Kenyan Shilling against the US Dollar is expected to elevate import costs, potentially hindering international trade activities. Additionally, the anticipated decrease in global demand, driven by a broader deceleration in the international economy, may result in reduced interest in Kenyan products on the global stage.

Recent regional developments, particularly the State Department of Transport's announcement regarding the expansion of the Standard Gauge Railway to Kisumu, Malaba, and Isiolo by June 2027, underline the compelling rationale for substantial capital investment within the cement manufacturing sector. These initiatives underscore the growing demand for construction materials, particularly cement, in the region.

Heightened competition, especially with the entry of new players into the market, present an area of concern. Nevertheless, we remain resolute in our pursuit of strategic market share objectives, which are underpinned by our unwavering commitment to market revitalization efforts. Our steadfast dedication is exemplified by our goal of attaining no less than a 20% market share in the medium term. We believe that by maintaining our focus on market expansion and consistently delivering high-quality products, we will not only weather these challenges but also emerge as a formidable player in the cement manufacturing sector.



**Oliver Mwandigha Kirubai**  
Managing Director

## **Introduction**

The Group steadfastly maintains a commitment to upholding rigorous standards of corporate governance, a commitment that serves to both enhance and safeguard the value of our business while ensuring its long-term sustainability. Our Board of Directors is deeply dedicated to fulfilling its duties and responsibilities with unwavering integrity, consistently acting in the best interests of the Company. In doing so, we are steadfastly focused on benefiting not only our valued shareholders but also our customers, suppliers, financiers, the Government, and the broader community.

## **Compliance statement**

The Company's operational framework is shaped by a comprehensive set of guidelines and regulations, including the Capital Markets Authority Guidelines on Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Public Officer Ethics Act of 2003, and various other relevant laws that pertain to our operations. Additionally, we draw upon the principles articulated in the 'Mwongozo' Code of Governance for State Corporations, as well as other industry best practices delineated in our Board Charter. These collective standards serve as the bedrock of our commitment to corporate governance excellence and guide our actions and decision-making processes.

## **Responsibilities of the Board**

The foremost role of the Board is to provide visionary leadership and strategic guidance to the Company, with a paramount focus on enhancing shareholder value. Its primary responsibilities encompass the formulation of strategy and the establishment of overarching policies, oversight of the preparation of statutory financial statements, vigilant review and monitoring of both the Company's performance and that of its senior Management, and the assurance of robust internal controls to safeguard business continuity. To facilitate the efficient execution of daily operations, the Board has judiciously delegated the authority for day-to-day business activities to the Managing Director and the Management Committee. This strategic division of responsibilities ensures streamlined operations and allows the Board to concentrate on its core functions. In its quest to fulfil its obligations effectively, the Board of Directors maintains open lines of communication with the Company Secretary and possesses access to timely and pertinent information from the Management. Furthermore, Directors are endowed with the authority to solicit independent professional counsel on Company matters, should the need arise, with the Company bearing the associated costs. This enables the Board to make informed decisions and uphold its commitment to the Company's best interests.

The Composition of the Board is set out on page 1.

The Board comprises seven members, including the Chairman, Managing Director, and five non-executive directors. The non-executive directors maintain their independence from the management team and undergo periodic re-appointment procedures as stipulated in the Company's Articles of Association. Upon their appointment, directors undergo a comprehensive induction program that acquaints them with the Company's business operations. This orientation also includes an in-depth briefing on the legal, regulatory, and other obligations associated with being a director of a publicly listed Company. The specific responsibilities and duties of the directors are comprehensively outlined in the Statement of Directors Responsibilities section, which serves as a guiding document, delineating their roles and obligations within the organization.

The Board convenes on a regular basis, ensuring a structured and consistent forum for discussions and decision-making. To empower directors in their roles and responsibilities, they receive pertinent and timely information, enabling them to exercise comprehensive oversight and maintain full control over a spectrum of critical domains, including strategic, financial, operational, compliance, and governance matters. This commitment to transparency and effective communication ensures that the Board is well-informed and equipped to make sound judgments and provide effective leadership.

The roles of the Chairman and the Managing Director are clearly defined and have been approved by the Board. The composition of the Board reflects a diverse and extensive pool of skills and experience. Each member contributes independent judgment and possesses a wealth of knowledge that enriches Board discussions. The Board is fully cognizant that, at its heart, the corporate governance system places

### Responsibilities of the Board (continued)

ultimate accountability and responsibility on its shoulders for the Company's performance and affairs. In adherence to their fiduciary duty, the directors consistently act in the best interests of both the Company and its shareholders. The Board comprehends the profound importance of corporate governance and actively endeavours to provide robust and competitive strategic leadership, ensuring that the Company remains well-positioned to navigate the complex business landscape and deliver sustained value to its stakeholders.

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)	AGM (90 <sup>th</sup> )
Chairman – Edwin Kinyua	4	8	1
Managing Director – Oliver Kirubai	4	8	1
CS Treasury or his alternate	4	8	1
PS Ministry of Investments, Trade & Industry	4	7	1
NSSF	4	6	1
Kungu Gatabaki	4	8	1
Professor Sarone Ole Sena	4	8	1
Company Secretary	4	8	1

Twelve board meetings were held during the year.

The Board is of the opinion that there is a balance between 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 established three distinct Sub-Committees, each endowed with specific delegated authorities and focused responsibilities. These Committees include the Audit Committee, Finance, Strategy & Technical Committee, and the Human Resources & Remuneration Committee. Additionally, the management team operates through an Executive Management Committee. These specialized Board Committees play a pivotal role in supporting the Board in fulfilling its various responsibilities. Each Committee operates with well-defined roles and terms of reference that have received approval from the Board, ensuring a clear mandate and purpose. Importantly, these Committees are chaired by non-executive directors, promoting an independent and impartial oversight of their respective areas of focus. This structured governance approach enhances the Board's capacity to effectively manage and oversee various critical aspects of the Company's operations.

**Details of these committees and membership are shown below:**

#### Audit Committee

The Audit Committee conducts comprehensive reviews of the Company's financial statements on a quarterly, semi-annual, and annual basis. Their purview extends to examining external audit plans, assessing audit findings, and scrutinizing both internal audit operations and their findings. Moreover, the Committee diligently evaluates risks that impact the Company's operations. To facilitate a robust and transparent audit process, the external auditors are afforded unrestricted access to both the Managing Director and the Chairman of the Audit Committee. This open channel of communication ensures that the audit process is thorough, objective, and free from any undue influence, thereby upholding the highest standards of financial transparency and accountability.

#### **Audit Committee (continued)**

The members of the Committee are:

##### **Director**

David Koross (representing NSSF) Kungu Gatabaki CS, Treasury	Chairman
Prof. Sarone Ole Sena Florence Mitey	Secretary

The Committee held three meetings during the year.

#### **Finance, Strategy & Technical Committee**

The Committee is tasked with the crucial responsibility of formulating and recommending financial policies, capital expenditure plans, Sales and Marketing strategies, Technology and Research objectives, and budgets that align harmoniously with the Company's mission, values, and overarching strategic goals. Additionally, it undertakes a diligent review of the Company's financial performance in relation to its predefined objectives, thereby ensuring alignment with strategic targets. Furthermore, the Committee plays a pivotal role in proposing significant transactions and programs to the Board, providing valuable insights and recommendations for the Company's strategic development and continued growth.

##### **The members of the Committee are**

Kungu Gatabaki CS, Treasury PS Ministry of Investments, Trade & Industry	Chairman
David Koross Managing Director	Representing NSSF
Florence Mitey	Secretary

The Committee held three meetings during the year.

#### **Human Resources & Remuneration Committee**

The Committee assumes a critical role in the formulation and periodic review of human resource policies and the organizational structure within the Company. It actively participates in decisions related to the appointment of senior management, establishing the terms and conditions governing their roles. Additionally, it oversees matters concerning promotions and disciplinary actions involving senior staff. Furthermore, the Committee is entrusted with the crucial task of designing and evaluating the remuneration and benefits structure for employees, ensuring it aligns with industry standards and supports the Company's strategic objectives. Moreover, the Committee plays a pivotal role in approving performance-based rewards, reinforcing a culture of meritocracy and motivation within the organization.

##### **The Members of the Committee are:**

Prof. Sarone Ole Sena David Koross PS Ministry of Investments, Trade & Industry	Chairman Representing NSSF
Managing Director Florence Mitey	Secretary

The Committee held three meetings during the year.

### Human Resources & Remuneration Committee (continued)

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

	Audit committee	Finance, Strategy & Technical Committee	HR & Remuneration Committee
Chairman - Edwin Kinyua	-	-	-
CS Treasury / Alternate	3	6	8
PS Ministry of Investments, Trade & Industry	2	6	6
NSSF	3	2	4
Managing Director	3	8	8
Kungu Gatabaki	3	8	-
Prof. Sarone Ole Sena	3	-	8
Company Secretary	3	8	8

### Management Committee

The Management Committee serves as the vital bridge connecting the Board and the Management team. Its primary role is to provide invaluable assistance to the Managing Director in charting the overarching direction of the business. The Committee assumes the crucial responsibility of overseeing the execution of operational plans and annual budgets, ensuring alignment with the Company's strategic goals. Furthermore, it conducts periodic reviews of ongoing operations, strategic plans, and proposals, with a keen eye on identifying and managing key risks and opportunities that may impact the Company's performance. Additionally, the Committee plays an essential role in the formulation and approval of guidelines governing employee remuneration.

To facilitate agile decision-making and effective management oversight, the Committee convenes at least once a week, maintaining an active and responsive presence in the day-to-day operations of the Company.

### 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. This practice ensures a fair and balanced distribution of ownership interests among the Board members, promoting transparency and preventing any single director from exerting disproportionate influence on the Company's affairs.

### Directors' remuneration and loans

The Company maintains a commitment to conducting regular reviews of the remuneration provided to all directors, ensuring that these levels of compensation remain appropriate and in line with industry standards. Importantly, no arrangements were in place at the end of the financial year, or at any point during the year, through which directors might derive benefits from the acquisition of the Company's shares. To enhance transparency and disclosure, detailed information regarding emoluments and fees paid to directors can be found in (Note 34(vi)) of the financial statements, allowing stakeholders to access a comprehensive overview of the compensation structure for the Board members.

### Board Performance Evaluation

In adherence to the guidelines outlined in Performance Contracting and the provisions set forth in the Board Charter, the Board undertakes the pivotal responsibility of overseeing rigorous evaluations of its own performance, along with that of its committees and individual directors. This evaluation process is conducted at regular intervals, both quarterly and annually, to maintain a robust and systematic assessment of performance. Furthermore, the results of these evaluations are diligently compiled and provided to the Ministry of Investments, Trade and Industry and the Office of the Prime Cabinet Secretary, in accordance with the requirements stipulated under Performance Contracting. This commitment to comprehensive evaluation ensures that the Board and its components consistently strive for excellence and accountability in fulfilling their duties and responsibilities.

### **Going concern**

The Board affirms its confidence in the Company's ability to sustain its operations for the foreseeable future, supported by adequate resources. In light of this assurance, the Company continues to adopt the going concern basis for the preparation of its financial statements. Additionally, the Company has received approval to unlock value from its idle assets, with specific reference to the ongoing process of disposing of 1,909 acres of land categorized as investment property. This transaction is expected to yield KES 10 billion, thereby significantly improving the Company's working capital.

In light of these developments and the revised financial outlook, the Board has diligently reviewed the projected operating results for the next one year and is confident that the Company will maintain its status as a going concern, demonstrating its commitment to financial stability and sustainability.

### **Internal controls**

The Board collectively holds the responsibility for establishing and upholding a robust system of internal control, designed to provide reasonable assurance of effective and efficient operations within the Company. The Board places significant emphasis on maintaining a robust control environment, and the Company's internal control framework extends beyond financial aspects to encompass the assessment of non-financial risks and controls. After thorough review, the Board is confident that the Company has appropriate procedures in place.

The Company conducts its business within a well-defined control framework, which is underpinned by policy statements, written procedures, and control manuals. This framework ensures that there are documented policies and procedures in place to identify and manage various forms of risk, including operational, liquidity, regulatory, legal, reputational, market, and credit risks. The Board has established a well-defined management structure that clearly outlines roles, responsibilities, and reporting lines. Delegated authorities are also documented and communicated.

Performance reporting is an integral part of the Company's operations, with regular updates provided to both management and the Board. Performance trends, forecasts, and actual results against budgets and prior periods are closely monitored. Financial information is prepared using consistent accounting policies, while operational procedures and controls have been implemented to facilitate the accurate and timely processing of transactions and to safeguard assets. These controls encompass practices such as the segregation of duties, regular account reconciliations, and asset valuations.

Moreover, all employees are provided with a Code of Ethics and are expected to adhere to high standards of integrity and fairness when interacting with customers, staff, regulators, and the communities in which the Company operates. This framework forms an integral part of the Company's compliance structure, establishing policies and standards for compliance with rules, regulations, and legal requirements. The Board remains committed to effectively fulfilling its role within the corporate governance structure. Non-executive directors will continue to exercise oversight over the Company's management through Board meetings and their respective Committee responsibilities, ensuring that governance standards and practices are upheld and aligned with the Company's mission and values.

### **Relations with shareholders**

The Board places a high value on effective communication with all shareholders and acknowledges its significance. Two primary avenues for this communication are the Annual General Meeting (AGM) and the publication of the annual report. The Company ensures that shareholders receive adequate notice of the AGM, adhering to the provisions outlined in the Kenyan Companies Act. Shareholders are actively encouraged to utilize this platform to submit questions and appoint proxies to represent them should they be unable to attend in person. Additionally, the Company addresses shareholder requests for information on an ongoing basis, with particular emphasis during the AGM.

### **Relations with shareholders (continued)**

In its unwavering commitment to uphold and protect shareholders' rights, the Board affirms that every shareholder possesses the right to participate and cast their votes at general shareholders' meetings. Furthermore, the Board facilitates an open environment where shareholders can seek clarification and gain insights into the Company's performance during these meetings, reinforcing transparency and accountability in corporate governance.

### **Skills and experience of the Board**

Our esteemed Directors bring a wealth of diverse skills and extensive experience to the Company, including but not limited to:

- **Corporate Governance and Legal Knowledge:** Several Directors possess significant expertise in corporate governance and legal matters, ensuring that the Company adheres to the highest standards of legal and ethical conduct.
- **Diverse Age Profiles:** The Board boasts a broad spectrum of age profiles, offering a balanced mix of seasoned wisdom and fresh perspectives, which contributes to well-informed decision-making.
- **Cement Industry Experience:** With a core focus on the cement industry, some Directors offer invaluable insights and in-depth knowledge of this sector, which is instrumental in guiding the Company's strategic direction and operations.
- **Diverse and Complementary Skills:** The Board is characterized by a diverse array of skills, each Director contributing their unique competencies and expertise. These diverse and complementary skills synergize to form a cohesive and effective leadership team.

This rich blend of skills and experience positions the Board to provide strong leadership, steer the Company towards its strategic objectives, and navigate the complexities of the business landscape with confidence and agility.

### **Code of Conduct**

The Board has taken the proactive step of approving a comprehensive Code of Ethics, which delineates the Company's fundamental values pertaining to the ethical and lawful conduct of its business operations. This Code of Ethics serves as a guiding document, outlining the principles and standards that underpin the Company's commitment to integrity, transparency, and responsible business practices.

### **Conflict of Interest**

All directors are held to a stringent duty to prevent conflicts of interest. This obligation encompasses refraining from participating, either directly or indirectly, in any business activities that directly compete with or pose conflicts of interest with the Company's operations. In the event of any potential or actual conflicts of interest arising, directors are promptly required to report such instances to the Company Secretary. This commitment to transparency and diligence in managing conflicts ensures that the Board's actions are consistently aligned with the best interests of the Company and its stakeholders.

### **Appointments to the Board**

Directors follow an annual rotation retirement process, with their retirement occurring on a yearly basis. If eligible, their names are submitted for re-election at the annual general meetings. All director appointments are contingent upon confirmation by shareholders at the annual general meetings. This practice underscores the significance of shareholder involvement in the selection and retention of directors.

In addition to the induction program tailored for new directors, the Company also organizes specific training workshops that directors actively participate in. These workshops are accredited by the Centre for Corporate Governance, providing directors with valuable insights and knowledge to enhance their governance roles and responsibilities.

### **Interaction with Management**

The Board of EAPC maintains a robust and highly interactive relationship with the management team. This close collaboration empowers directors to infuse their extensive experience and professional knowledge of the target market into shaping the Company's strategic direction. A policy of open communication between the Board and Management is rigorously adhered to, ensuring that the Board remains fully informed about significant matters concerning EAPC and its overall business operations. Furthermore, the Company has implemented a well-defined procedure that allows directors to propose additional agenda items for discussion at meetings and request supplementary information or briefings on specific topics in advance of meetings.

In line with the provisions of the Board charter, the composition of the Board Committees was diligently reviewed during the fiscal year 2022/2023. This annual review process ensures that committee memberships and chairs are aligned with the evolving needs and objectives of the Company, facilitating effective governance and oversight.

### **Communication**

The Board is content that its decision-making capability remains strong, and it maintains a high level of accuracy in its reporting and financial results, thereby ensuring thorough disclosure and transparency in its operations. To bolster these efforts, the Board places reliance on both the external group of Auditors and the Audit Committee to promptly flag any financial concerns that may arise.

The Company upholds a commitment to providing timely and pertinent information to its shareholders. This is achieved through the regular publication of periodic accounts and the Annual Report. Additionally, the Company conducts an annual briefing to keep shareholders informed about key developments. Furthermore, shareholders are promptly notified of any significant events that have an impact on the Company's operations, fostering a culture of transparency and accountability in its communication with stakeholders.

### **Corporate Social Responsibility**

The Company actively engages in Corporate Social Responsibility (CSR) initiatives, with a focus on enhancing education, healthcare, water resources, and environmental conservation. These CSR activities are designed to make a positive impact on the communities in which the Company operates. A distinctive aspect of our CSR approach is the direct involvement of local communities in identifying and prioritizing the initiatives that would most benefit them. Local committees are established to facilitate this process, ensuring that the projects and programs undertaken truly address the specific needs and aspirations of the communities we serve. Through these CSR efforts, the Company is committed to not only being a responsible corporate citizen but also to creating tangible and sustainable benefits for the communities it operates in, contributing to their overall well-being and development.

### **Procurement policies**

The Company has procurement policies which promote transparent procurement processes and build mutually beneficial relationships with suppliers. Management Tender Committees oversee the award of tenders to facilitate transparency of procurement processes in the company.

### **Whistle blowing policy**

The Company has a whistle blowing policy which provides a platform for employees, suppliers, dealers and agents to raise complaints on any suspected wrongdoing. The policy also gives the procedures to be followed regarding such complaints.

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 2023.

## 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. As a result of the parent Company's redesigned route to market, the entity is largely dormant.

## Financial Performance

The Company embarked on implementation of its 5-year Strategic Plan with the first phase of plant refurbishment which was completed in September 2022. Improved plant availability coupled with market regeneration efforts led to a 38% improvement in revenue closing at Shs 2.95 billion (2022: 2.1 billion) with a 34% increment in cost of sales closing at Shs 3.9 billion (2022: Shs 2.95 billion) mainly driven by forex depreciation impacting thermal costs. The Group reported a loss for the year of Shs 1.36 billion (2022: profit of Shs 541 million). The operating loss is mainly driven by insufficient working capital to support throughput leading to inadequate absorption of fixed costs. However, this was netted off by a reduction in employee related costs as a result of restructuring plans implemented in the previous year. In order to hasten proceeds from sale of land, the Board approved a regularization plan of LR 8784/144, 8784/145 & 8784/653 totalling 909 acres which had been heavily populated with squatters. This plan ensures that the local community has first right of purchase with expected proceeds of Shs 5 billion payable within the next three years. Furthermore, the Company has also subdivided 1000 acres of the adjacent property LR 10424 into 50-acre plots which are on sale with expected proceeds totalling to approximately Shs 5 billion.

## 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 engaged in afforestation initiatives, demonstrating its commitment to environmental sustainability. As part of these efforts, the Group distributes seedlings to the local community, encouraging and contributing to reforestation and the overall enhancement of the environment. Furthermore, the Group places a strong emphasis on compliance with the requirements set forth by the National Environmental Management Authority (NEMA). This commitment to regulatory compliance underscores the Group's dedication to responsible environmental practices and ensures that its operations are conducted in harmony with environmental regulations and standards.

## 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:

	2023	2022
Permanent	60	60
Contract	428	438
<b>Total</b>	<b>488</b>	<b>498</b>

## Corporate social responsibility

The Group is deeply committed to addressing community issues, a commitment that is elaborated upon in the Sustainability Report. As a responsible corporate citizen, the Group places a strong emphasis on giving back to the communities it partners with. These CSR initiatives are designed to create positive and lasting impacts, fostering social development, and enhancing the well-being of the communities in which the Group operates. This commitment to social responsibility reflects the Group's dedication to making a meaningful difference in the lives of its community stakeholders.

## Outlook

Recent regional developments, notably the announcement by the State Department of Transport regarding the expansion of the Standard Gauge Railway to Kisumu, Malaba, and Isiolo by June 2027, emphasize the compelling case for significant capital investment in the cement manufacturing sector. These initiatives underscore the increasing demand for construction materials, particularly cement, in the region. While the market has seen heightened competition, with the entry of new players, this remains an area of concern. Nevertheless, our resolve to achieve our strategic market share goals remains steadfast. This determination is rooted in our unwavering commitment to revitalizing the market through strategic efforts and initiatives, ensuring that we continue to play a prominent and influential role in the industry. Our financing strategy centres on the divestment of idle land assets to fund our crucial strategic initiatives. We acknowledge the responsibility of prudent fiscal management, and we understand that our organization's land holdings represent untapped potential, which can be leveraged to propel our ambitious growth trajectory forward.

## Key performance indicators

The table below highlights some of the key performance indicators:

Key performance ratios	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Gross loss margin	32%	36%	32%	36%
Operating loss margin	65%	86%	65%	86%
Net (loss) /profit margin	(46%)	25%	(46%)	25%
Return on assets	(4%)	2%	(4%)	2%
Return on equity	(7%)	3%	(7%)	3%

## DIVIDENDS

The Group's and Company's loss after tax for the year of Shs 1,356,467,000 (2022: profit of Shs 541,585,000) and Shs 1,356,467,000 (2022: profit of Shs 541,585,000) respectively has been added to retained earnings. The directors do not recommend the payment of a dividend in respect of the current year (2022: Shs nil).

## DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

## STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

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

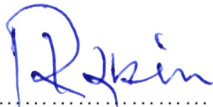
#### **TERMS OF APPOINTMENT OF AUDITOR**

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 her behalf. PricewaterhouseCoopers LLP was nominated by the Auditor General to carry out the audit of East African Portland Cement Plc for the year ended 30 June 2023.

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**

  
..... 2023  
26 October

The Board of Directors extends its heartfelt congratulations to our dedicated investors for their unwavering support throughout the just-concluded financial year. The business environment faced by the Company during this period was notably more challenging than in previous years, marked by a myriad of factors, both internal and external.

In light of these challenges and the imperative to develop effective mitigating strategies, the Board of Directors proactively engaged in a series of initiatives on behalf of the Group. These endeavours, once implemented, are expected to pave the way for enhanced profitability in the foreseeable future. The Board remains resolute in its commitment to steer the Company towards a brighter and more prosperous path, and we deeply appreciate the trust and support of our valued investors in this journey.

### **The Director's remuneration policy at a glance**

#### **Executive Directors**

The Managing Director holds the unique position of being the sole Executive Director within both the Group and the Company, as outlined in accordance with the provisions of the Company's Act. His remuneration is established in strict adherence to the staff remuneration policy, which has received approval from the Board of Directors.

The remuneration package for the Managing Director encompasses various components, including a basic salary, gratuity, and other benefits. This comprehensive package is meticulously designed to duly acknowledge the Managing Director's exceptional skills, extensive experience, and the level of attention and commitment required for the effective leadership and management of the Group.

#### **Non-Executive Directors**

The Non-Executive Directors of the Company are remunerated through fees and other emoluments, which acknowledge their invaluable contributions during Board and Committee meetings. These fees are subject to approval by Shareholders at the Annual General Meetings and are disbursed subsequent to the occurrence of the respective meetings. In addition to fees, the Non-Executive Directors receive expense allowances, which are paid out over the course of the year.

Non-Executive Directors do not receive any performance-based remuneration, and there are no pension contributions payable on their emoluments. To facilitate their participation in board meetings, the Group covers travel and accommodation expenses related to attendance, ensuring that Directors can fulfill their responsibilities effectively and efficiently. This compensation framework aligns with industry best practices and supports the Company's commitment to maintaining a robust and effective Board of Directors.

#### **Directors' shareholding**

None of the members of the Board of Directors hold shares in their personal capacity within the Group. However, the composition of the directorships reflects the representation of key shareholders of the Group. The National Treasury is represented by the Cabinet Secretary, who also nominates an alternate representative. Similarly, the parent ministry is represented by the Principal Secretary, with a nominated alternate.

Additionally, the National Social Security Fund is represented by the Managing Trustee, who also nominates an alternate representative. This structure ensures that key stakeholders and shareholders are appropriately represented at the Board level, promoting transparency and alignment with the Company's strategic direction and objectives.

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
Brig.(Rtd) Richard K. Mbithi - Chairman	30 June 2023	30 June 2026
Kungu Gatabaki	Shareholder rep	Shareholder rep
Prof. Sarone Ole Sena	Shareholder rep	Shareholder rep
Prof. Njuguna S. Ndungu	Shareholder rep	Shareholder rep
Patrick Koinari Ole Tutui	Shareholder rep	Shareholder rep
National Social Security Fund	Shareholder rep	Shareholder rep
Dr. Eusebius Juma Mukhwana	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 2023 together with the comparative figures for 2022. The aggregate directors' emoluments for Group and Company are shown on below:

#### Year ended 30 June 2023

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Post Employment Benefits	Estimated Value of Non-cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Edwin Kinyua	-	300	-	4,817	-	-	5,117
2	Oliver Kirubai	12,167	-	-	-	3,772	-	15,939
3	Kungu Gatabaki	-	160	-	2,688	-	-	2,848
4	Dr. Antony Omerikwa	-	160	-	214	-	-	374
5	Prof. Sarone Ole Sena	-	160	-	4,071	-	-	4,231
6	Edward Wamweya	-	160	-	2,652	-	-	2,812
7	David Mwangangi	-	-	-	257	-	-	257
8	Moses Cheseto	-	-	-	814	-	-	814
9	Nancy Muya	-	-	-	1,081	-	-	1,081
10	Timothy Gakuu	-	160	-	1,500	-	-	1,660
	<b>Totals</b>	<b>12,167</b>	<b>1,100</b>		<b>18,094</b>	<b>3,772</b>		<b>35,133</b>

#### Year ended 30 June 2022


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	Edwin Kinyua	-	300	-	6,036	-	-	6,336
2	Oliver Kirubai	12,167	-	-	-	3,772	-	15,939
3	Kungu Gatabaki	-	160	-	2,747	-	-	2,907
4	Dr. Antony Omerikwa	-	160	-	1,157	-	-	1,317
5	Prof. Sarone Ole Sena	-	160	-	2,506	-	-	2,666
6	Edward Wamweya	-	160	-	1,606	-	-	1,766
7	Nicholas Kamau	-	160	-	220	-	-	380
8	Patricia Aruwa	-	-	-	431	-	-	431
9	Nancy Muya	-	-	-	1,231	-	-	1,231
	<b>Totals</b>	<b>12,167</b>	<b>1,100</b>		<b>15,934</b>	<b>3,772</b>		<b>32,973</b>

**Information subject to audit (continued)**

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 34(vi) of the financial statements.

On behalf of the Board

**Company Secretary**

 ..... 2023  
26 October

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Company at the end of the financial year and their financial performance for the year then ended. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company, disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


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 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 assessed the Company's ability to continue as a going concern, the directors have disclosed 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.

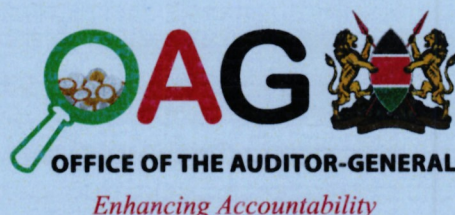
Approved by the board of directors on <sup>October</sup>~~26 September~~ 2023 and signed on its behalf by:

  
**Brig. (Rtd) Richard K. Mbithi**  
Chairman

  
**Oliver Mwandigha Kirubai**  
Managing Director

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE, 2023**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner, to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

The accompanying Group and Company financial statements of East African Portland Cement PLC set out on pages 26 to 78, which comprise of the Group and the Company's

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*Report of the Auditor-General on East African Portland Cement PLC for the year ended 30 June, 2023*

statement of financial position as at 30 June, 2023, and the Group 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 the East African Portland Cement PLC as at 30 June, 2023 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 the 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**

#### **1. Material Uncertainty Related to Going Concern**

I draw attention to Note 2(a) in the financial statements, which indicates that the Group and the Company recorded a net loss for the year of Kshs.1,356,457,000 (2022: Net Profit Kshs.541,585,000) and Kshs.1,356,457,000 (2022: Net Profit Kshs.541,585,000) respectively for the year ended 30 June, 2023. Further, the Group's and the Company's current liabilities exceeded the current assets by Kshs.11,824,491,000 (2022: Kshs.12,214,962,000) and Kshs.11,788,168,000 (2022: Kshs.12,240,019,000), respectively an indication of negative working capital for the Group and the Company.

The Company defaulted on a loan from one of the key lenders in September, 2019 and obtained approval from shareholders to dispose some of the idle land to pay the debt that was paid in November, 2022. Additionally, the Company is in the process of signing off a subsidiary loan agreement with the Government of Kenya relating to the Japanese loan that was taken over by the Government. Factors that have affected performance have been explained in the Director's Report and Managing Director's Report. In particular, the Company continues to operate significantly below capacity due to working capital constraints.

Further, the Company has significant litigations and claims against it, which if successful, may result in claims that are unlikely to be settled, given the Company'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 /or goods delivered totalling Kshs.310,000,000 and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling Kshs.196,000,000. All of these claims have been provided for in the financial statements.

In addition, due to the cash flow constraints, the Company has been unable to settle amounts due to statutory authorities which include Pay As You Earn (PAYE) of Kshs.1,700,000,000, Value Added Tax (VAT) balance of Kshs.247,000,000 and pension liabilities of Kshs.159,000,000 being principal, penalties and interests.

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

The financial statements have been, therefore, prepared on a going concern assumption that the Company will continue to obtain financial support from the bankers, suppliers and shareholders.

## **2. Kenya Revenue Authority Tax Audit**

As disclosed in Note 30(i) to the financial statements, Kenya Revenue Authority (KRA) 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.2.6 billion out of which an amount of Kshs.1.7 billion was resolved with KRA. The Company paid an amount of Kshs.122,000,000 and appealed against an amount of Kshs.473,000,000 through the Local Tax Committee which ruled in favour of the Company. KRA later appealed in the High Court against the Local Tax 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, however, if the High Court rules in favour of the KRA, the Company may incur further costs in settlement, which is recognized as a contingent liability.

My opinion is not modified in respect of the effects of the above matters.

### **Key Audit Matters**

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><b>Valuation of Investment Properties</b></p> <p>As disclosed in Note 18 to the financial statements, the Group's and the Company's investment properties consist of investment in land carried at fair value. Management engaged an independent professional valuer to determine the fair value as at 30 June, 2023. The valuer determined the open market value using recent property transactions prices within the vicinity of the properties.</p> <p>Further, Management has exercised judgement in applying valuation amounts based on the recent comparable sales made by the Group.</p> <p>The carrying value of the investment of property as at 30 June, 2023 total to Kshs.25,909,698,000 (2022:Kshs.27,372,448,000)</p>	<p>I have performed the following audit procedures;</p> <ul style="list-style-type: none"> <li>• Assessed the competency, capabilities and objectivity of the independent valuer.</li> <li>• Assessed the appropriateness of the methodology used by the independent valuer and its consistency with the International Financial Reporting Standards (IFRS).</li> <li>• Assessed any judgements exercised by management in determining the fair value including any overlays applied.</li> <li>• Verified the ownership of the property and assessed Management's judgement on the appropriateness of the classification of the encroached land as investment property.</li> <li>• Reviewed Management's estimate of eviction costs for reasonableness.</li> <li>• Reviewed the adequacy of the disclosures in Note 18 to the financial statements.</li> </ul>

## Other Matter

### Post Balance Sheet Deed of Settlement

A deed of settlement was executed on 21 July, 2023 between the Company, National Social Security Fund (NSSF), Central Organization of Trade Unions (COTU) and the Ministry of Lands, Public Works, Housing and Urban Development through the Attorney General, to facilitate the regularization process of the Company's investment property

under LR No. 8784 of which almost 70% is occupied by informal settlers. Subsequently, on 17 October, 2023, the Company floated for sale of LR No. 8784/144,145 and 653 on priority basis to the current occupants, failure to which the property will be competitively offered to the general public on a willing buyer willing seller basis.

Further, other two (2) parcels of land under LR No.10424 and LR No. 7815 are also partially occupied by informal settlers. However, the Company continued to pursue several avenues to reclaim the occupied properties. An estimated cost of evicting the informal settlers amounting to Kshs.425,870,000 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 Corporate information, the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Directors Report, 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**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Non-Remittance of Tax Deductions**

As previously reported, the Company had not remitted PAYE dues amounting to Kshs.1,700,000,000 (2022: Kshs. 2,456,000,000) in principal, penalties and interests as at 30 June, 2023. This is contrary to Sections 3(2)(a)(ii), 5 and 37 of the Income Tax Act, Cap 470 which requires employers to deduct PAYE at source and remit the same to the tax authorities before the 9<sup>th</sup> day of the subsequent month of pay. As a result, the Company is likely to suffer additional tax penalties and interest.

Further, as previously reported, the Company had not remitted VAT totalling to Kshs.247,000,000 (2022: Kshs.398,000,000) in principal and penalties and interest as at 30 June, 2023. This was contrary to Section 13(3) of the Value Added Tax Act Cap 476 which requires entities to remit Value Added Tax (VAT) payable to tax authorities before the 20<sup>th</sup> day of the subsequent month of collection.

## **2. Non-Remittance of Employees' Pension Contributions**

As previously reported, the Company had accrued pensions balance of Kshs.159,000,000, in principal, penalties and interest as at 30 June, 2023. The unremitted contributions date back to August, 2018. This is contrary to Sections 53 and 53A of the Retirement Benefits Act, 1997 which requires entities to remit contributions by the employee's timely, failure to which, the entities will be penalized. The Company is therefore 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.

In the circumstances, Management was in breach of law.

## **3. Non-Remittance of Mining Levies**

As previously reported, the Company had outstanding remittances of mining levy amounting to Kshs.155,000,000 as at 30 June, 2023. This is contrary to Legal Notice No. 222 of the Mining Act (Cap 306) dated 18 December, 2013 which requires cement producers to pay a cement mineral levy at the rate of Kshs.140 per ton of cement with effect from 01 January, 2014. The Company is therefore exposed to the consequences of non-compliance with the mining regulations.

In the circumstances, Management was in breach of law.

## **4. Non-Remittance of Unclaimed Dividends**

As previously reported, the statement of financial position reflects accrued dividends payable amounting to Kshs.102,000,000 as at 30 June, 2023. Part of this amount has been outstanding for more than three (3) years exposing the Company to increased penalties. This is contrary to Section 20 of the Unclaimed Financial Assets Act, 2011 which 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.

In the circumstances, Management was in breach of law.

## **5. Lack of Executed Agreement for Government Loan**

As previously reported, and as disclosed in Note 26 to the financial statements, the statement of financial position reflects Government debt balance of Kshs.1,942,945,000 payable to the Government of Kenya. The loan amount has accumulated from the interest and principal repayment made on Japanese - OECT loan by the Government of Kenya on behalf of the Company as the guarantor. However, the loan agreement between the Company and the Government indicating the terms of the loan and the agreed amount was not provided for audit verification. It was not therefore, possible to ascertain the terms of the loan or the actual outstanding loan amount due to the Government as at 30 June, 2023.

In the circumstances, it has not been possible to determine when the Government guarantee will crystalize.

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Weaknesses in Accounts Receivables Management**

Review of credit processes revealed the system in place does not automatically apply the customer receipts to the corresponding accounts. However, a manual intervention is required to apply the receipts to the customer invoices. The manual application of the receipts is tedious and prone to error or fraud. The total unapplied receipts as at 30 June, 2023 amount to Kshs.2.1 billion (2022: Kshs.1.9 billion).

Unapplied receipts distort the aging of trade receivable balances impacting on the reliability of the aged analysis report as a basis for computing estimated credit losses.

In the circumstances, effectiveness in management of accounts receivables could not be confirmed.

#### **2. Lack of Regular Preparation of Supplier Reconciliations**

The audit identified material differences between the ledger and the supplier statements independently circularized which amounted to Kshs.165,000,000 against the total sampled amount of Kshs.266,000,000. These variances indicate lapses in the effectiveness of the supplier reconciliations which were not done at the closure of the year.

In the circumstances, effectiveness in management of suppliers could not be confirmed.

### **3. Untimely Removal of Signatories from Bank Accounts**

Review of the bank confirmations received from the financial institutions, revealed that four (4) former staff were still signatories to the bank accounts for KCB Bank despite having long ceased being employees of the Company. There is risk of unauthorized access to the bank accounts.

In the circumstances, existence of effective controls in management of bank accounts could not be confirmed.

### **4. Lack of a Formal Policy for Directors' Emoluments**

Review of Directors' emoluments and fees revealed that Management did not have a formal remuneration policy in place for compensation to Directors in form of fees and emoluments.

In the circumstances, the effectiveness of internal controls in management of Directors' emoluments and fees could not be confirmed.

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 2 to 4 is consistent with the financial statements.
- (ii) In my opinion, the auditable part of the Directors' remuneration report on pages 5 to 6 has been properly prepared in accordance with the Companies Act, 2015.

## **Responsibilities of the Management and the Board of Directors**

Management is 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 Management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing financial statements, Management is responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable,

matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Group and the Company or to cease operations.

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

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

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

#### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the 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 and weaknesses when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities 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 overall 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 Group's and 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 Group's and 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 Group and the 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 Group and the 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

26 October, 2023

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

	Notes	Group Year ended 30 June		Company Year ended 30 June	
		2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Revenue	6	2,953,573	2,143,279	2,953,573	2,143,279
Cost of sales	7	(3,909,857)	(2,925,509)	(3,909,857)	(2,925,509)
<b>Gross loss</b>		(956,284)	(782,230)	(956,284)	(782,230)
Other operating income	8	78,936	74,172	78,936	74,172
Selling and distribution expenses	9	(87,000)	(32,783)	(87,000)	(32,783)
Administration and establishment expenses	10	(844,665)	(743,715)	(844,665)	(743,715)
Other operating expenses	11(a)	(237,070)	(409,931)	(237,070)	(409,931)
Expected credit loss allowance	11(b)	120,056	54,550	120,056	54,550
<b>Loss from operations</b>		(1,926,027)	(1,839,937)	(1,926,027)	(1,839,937)
Finance costs	12	(70,594)	(100,852)	(70,594)	(100,852)
Fair value gain-investment property	18	644,506	2,469,988	644,506	2,469,988
<b>(Loss)/ Profit before tax</b>		(1,352,115)	529,199	(1,352,115)	529,199
Income tax (expense)/ credit	14(a)	(4,352)	12,386	(4,352)	12,386
<b>(Loss)/ Profit for the year</b>		(1,356,467)	541,585	(1,356,467)	541,585
<b>Other comprehensive (loss)/ income for the year</b>					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Remeasurement of post-employment benefit obligations, net of tax	25(ii)	11,623	42,010	11,623	42,010
Impairment loss on property, plant and equipment		(960,784)	-	(960,784)	-
<i>Items that may be subsequently reclassified to profit or loss</i>					
Exchange differences on translation of foreign operation, net of tax		(61,400)	(14,428)	-	-
<b>Total comprehensive (loss)/ income for the year</b>		(2,367,028)	569,167	(2,305,628)	583,595
<b>Earnings per share</b>					
- Basic and diluted (Shs)	15	(15.07)	6.02	(15.07)	6.02

**Group and Company statement of financial position**

	Notes	Group At 30 June		Company At 30 June	
		2023	2022	2023	2022
		Shs'000	Shs'000	Shs'000	Shs'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment properties	18	25,909,698	27,372,448	25,909,698	27,372,448
Property, plant and equipment	16	5,111,086	6,397,407	5,111,086	6,397,387
Right-of-use assets	33(b)	23,486	40,743	23,486	40,743
Intangible assets	20	4,768	5,270	4,768	5,270
Investment in subsidiary	19	-	-	2,500	2,500
		<u>31,049,038</u>	<u>33,815,868</u>	<u>31,051,538</u>	<u>33,818,348</u>
<b>Current assets</b>					
Trade and other receivables	23	747,756	1,036,162	791,359	1,017,025
Inventories	22	873,595	924,084	876,637	926,571
Cash and cash equivalents	21	80,281	38,746	66,413	27,411
Current income tax	14(b)	30,261	34,613	30,409	34,761
		<u>1,731,893</u>	<u>2,033,605</u>	<u>1,764,818</u>	<u>2,005,768</u>
<b>TOTAL ASSETS</b>		<u>32,780,931</u>	<u>35,849,473</u>	<u>32,816,356</u>	<u>35,824,116</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	24 (a)	450,000	450,000	450,000	450,000
Share premium	24 (b)	648,000	648,000	648,000	648,000
Asset revaluation reserves	24 (c)	103,935	1,031,948	103,935	1,031,948
Retained earnings		17,760,370	19,149,608	17,760,493	19,149,731
Other reserves	24 (d)	251,958	301,735	290,658	279,035
<b>TOTAL EQUITY</b>		<u>19,214,263</u>	<u>21,581,291</u>	<u>19,253,086</u>	<u>21,558,714</u>
<b>Non-current liabilities</b>					
Lease liabilities	33(a)	10,284	19,615	10,284	19,615
		<u>10,284</u>	<u>19,615</u>	<u>10,284</u>	<u>19,615</u>
<b>Current liabilities</b>					
Borrowings	26	1,942,945	3,807,495	1,942,945	3,807,495
Trade and other payables	28	10,953,243	9,793,965	10,949,845	9,791,185
Post-employment benefits obligation	25	533,641	521,181	533,641	521,181
Dividends payable	29	101,680	101,680	101,680	101,680
Lease liabilities	33(a)	24,875	24,246	24,875	24,246
		<u>13,556,384</u>	<u>14,248,567</u>	<u>13,552,986</u>	<u>14,245,787</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>32,780,931</u>	<u>35,849,473</u>	<u>32,816,356</u>	<u>35,824,116</u>

The financial statements on pages 26 to 78 were approved for issue by the board of directors on 26 October 2023 and signed on its behalf by:

Richard K. Mbithi  
Brig. (Rtd) Richard K. Mbithi  
Chairman

Oliver Mwandigha Kirubai  
Oliver Mwandigha Kirubai  
Managing Director

**Group statement of changes in equity**

	Share Capital	Share Premium	Asset revaluation reserves	Retained earnings	Other reserves	Total
Year ended 30 June 2022	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	450,000	648,000	1,282,468	18,357,503	274,153	21,012,124
Transfer of excess depreciation	-	-	(357,886)	357,886	-	-
Deferred tax on excess depreciation	-	-	107,366	(107,366)	-	-
Profit for the year	-	-	-	541,585	-	541,585
Other comprehensive income	-	-	-	-	27,582	27,582
Total comprehensive income for the year	-	-	-	541,585	27,582	569,167
At end of year	450,000	648,000	1,031,948	19,149,608	301,735	21,581,291

	Share Capital	Share Premium	Asset revaluation reserves	Retained earnings	Other reserves	Total
Year ended 30 June 2023	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	450,000	648,000	1,031,948	19,149,608	301,735	21,581,291
Transfer of excess depreciation	-	-	(364,948)	364,948	-	-
Deferred tax on excess depreciation	-	-	109,484	(109,484)	-	-
Impairment loss	-	-	(960,784)	-	-	(960,784)
Release of deferred tax on impairment loss	-	-	288,235	(288,235)	-	-
Loss for the year	-	-	-	(1,356,467)	-	(1,356,467)
Other comprehensive loss	-	-	-	-	(49,777)	(49,777)
Total comprehensive loss for the year	-	-	(928,013)	(1,389,238)	(49,777)	(2,367,028)
At end of year	450,000	648,000	103,935	17,760,370	251,958	19,214,263

**Company statement of changes in equity**

	Share Capital	Share Premium	Asset revaluation reserves	Retained earnings	Other reserves	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Year ended 30 June 2022</b>						
At start of year	450,000	648,000	1,282,468	18,357,626	237,025	20,975,119
Transfer of excess depreciation	-	-	(357,886)	357,886	-	-
Deferred tax on excess depreciation	-	-	107,366	(107,366)	-	-
Profit for the year	-	-	-	541,585	-	541,585
Other comprehensive income	-	-	-	-	42,010	42,010
Total comprehensive income for the year	-	-	-	541,585	42,010	583,595
At end of year	450,000	648,000	1,031,948	19,149,731	279,035	21,558,714
<b>Year ended 30 June 2023</b>						
At start of year	450,000	648,000	1,031,948	19,149,731	279,035	21,558,714
Transfer of excess depreciation	-	-	(364,948)	364,948	-	-
Deferred tax on excess depreciation	-	-	109,484	(109,484)	-	-
Impairment loss	-	-	(960,784)	-	-	(960,784)
Release of deferred tax on impairment loss	-	-	288,235	(288,235)	-	-
Loss for the year	-	-	-	(1,356,467)	-	(1,356,467)
Other comprehensive loss	-	-	-	-	11,623	11,623
Total comprehensive loss for the year	-	-	(928,013)	(1,389,238)	11,623	(2,305,628)
At end of year	450,000	648,000	103,935	17,760,493	290,658	19,253,086

**Group and Company statement of cash flows**

	Notes	Group		Company	
		Year ended 30 June		Year ended 30 June	
		2023	2022	2023	2022
		Shs'000	Shs'000	Shs'000	Shs'000
<b>Cash flows from operating activities</b>					
Net cash used in operations	32	(12,727)	(445,852)	(76,640)	(460,642)
Interest paid		(3,315)	(5,641)	(3,315)	(5,641)
Income tax paid	14	-	-	-	-
Net cash used in operating activities		(16,042)	(451,493)	(79,955)	(466,283)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	16	(109,873)	(29,579)	(109,873)	(29,579)
Purchase of Intangible assets	20	(5,174)	(6,726)	(5,174)	(6,726)
Proceeds from disposal of investment properties		2,107,256	369,260	2,107,256	369,260
Proceeds on sale of property, plant and equipment		-	92,802	-	92,802
Net cash generated from investing activities		1,992,209	425,757	1,992,209	425,757
<b>Cash flows from financing activities</b>					
Proceed from borrowings	26	366,261	60,823	366,261	60,823
Repayment of borrowings	26	(2,229,221)	-	(2,229,221)	-
Repayment of principal portion of lease liability	33	(8,702)	(15,125)	(8,702)	(15,125)
Net cash (used in)/ generated from financing activities		(1,871,662)	45,698	(1,871,662)	45,698
<b>Net increase in cash and cash equivalents</b>		<b>104,505</b>	<b>19,962</b>	<b>40,592</b>	<b>5,172</b>
<b>Movement in cash and cash equivalents</b>					
Effects of exchange rate changes		(61,380)	(14,428)	-	-
At start of year		37,156	31,622	25,821	20,649
Increase		104,505	19,962	40,592	5,172
At end of year	21	80,281	37,156	66,413	25,821

## Notes

### 1 General information

East African Portland Cement Plc is incorporated in Kenya under the 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 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's and Company's loss after tax for the year of Shs 1,356,467,000 (2022: profit of Shs 541,585,000) and Shs 1,356,467,000 (2022: profit of Shs 541,585,000) respectively during the year ended 30 June 2023 and, as of that date, the Group's and Company's current liabilities exceeded the current assets by Shs 11,824,491,000 (2022: Shs 12,214,962,000) and Shs 11,788,168,000 (2022: Shs 12,240,019,000) respectively.

The Company defaulted on a loan from one of the key lenders in September 2019 and obtained approval from shareholders to dispose some of the idle land to retire the debt. This debt was retired in November 2022. Additionally, the Company is at the tail end of signing off of a subsidiary loan agreement with the Government of Kenya relating to the Japanese loan that was taken over by the government. The plant continues to operate significantly below capacity due to working capital constraints. 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 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 310 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling to Shs 196 million. All 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 1.7 billion, VAT balances of Shs 247 million and pension balances of Shs 159 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 Shs 19,214,263,000 (2022: Shs 21,581,291,000) 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 directors remain confident that the Group and Company will remain a going concern over the next 12 months. In making this assessment the directors have considered in detail all pertinent facts as outlined below:

- a) A thorough review of the budgetary and forecasting process to ensure that appropriate assumptions have been considered in developing the Group's forecast.
- b) Consideration of the timing and uncertainty of the cash flows to reflect the underlying maturity of the liabilities and assets.
- c) Consideration of the Group's financial adaptability.
- d) Review of possible exposures to contingent liabilities
- e) Review of the Group's risk mitigation practices and their adequacy for business related risks such as interest rates, currency exchange rate risk and credit risk.
- f) Review of other considerations relevant to business continuity such as maintenance of key suppliers and customers; maintenance of stable labour work force and key staff.
- g) Review of the stability of the Group's cost structure.
- h) Key areas of focus that include:
  - Review of the entire mine to market process with a view to enhance efficiency, minimize wastage and capitalize on opportunities to contain costs.
  - Plant refurbishment with a view to lower production costs whilst maintaining quality standards
  - Increase revenue through new product development.
  - Retire corporate loan through balance sheet restructuring and improve working capital.
  - Continuous engagement with creditors to agree on payment plans based on paying ability of the company and in line with projected cash flows.

For the year ended 30 June 2023 the Board of Directors and Management took the following measures to address and mitigate the above conditions:

- a. Conducted a thorough assessment and review of the market, competition and competition trends and strengths and the potential impact. The Company is convinced that both the domestic Kenyan market and the regional market present vast business opportunities that it can tap into by improving its production capacity and product offering.
- b. Implemented its 5 year strategic plan premised on short term, medium term and long term business focus through phased execution approach as detailed below:
  - Rapid Results Initiative (RRI) for the first 100 days whose objective will be to kick off the new strategy cycle named 'New Dawn'. A phased approach for plant refurbishment was completed in September 2022, with the replacement of the kiln shell.
  - The second phase shall run for 15 months as a Transformation phase, whose objective will be to fix and stabilize business operations. Other plant refurbishment activities are planned to coincide with receipt of land sale proceeds which will restore the Company to its rightful position as the low cost producer of choice in the region
  - The third phase will be the rest of the strategy period and shall be used to grow and sustain the Company.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (a) Basis of preparation (continued)

##### Going concern (continued)

- c. Closure and settlement of some of the old debts through workable payment plans and negotiations.
- d. Pursue waiver of penalties and interest from lenders and other creditors.
- e. Recapitalize the business through sale of land. The Company has embarked on a regularization plan of LR 8784/144, 8784/145 & 8784/653 totaling 909 acres which had been heavily populated with squatters. This plan ensures that the local community has first right of purchase with expected proceeds of KES 5 billion. Furthermore, the Company has also subdivided 1000 acres of the adjacent property LR 10424 into 50-acre plots which are on sale with expected proceeds totaling to approximately KES 5 billion. These measures will significantly impact working capital.

##### Key sources of uncertainty in the plans to mitigate the going concern risk

The following are the key sources of uncertainties in realisation of measures mentioned above:

1. Realization of proceeds from sale of land. Land disposals are, by the nature of the underlying asset, lengthy transactions. To this end, the Company subdivided 1,000 acres of LR 10424 into 50 acre land parcels to address general liquidity challenges in large land acquisitions. In order to hasten speed of realization of proceeds, the Company has engaged banks to provide financing for land acquisition by prospective buyers. Phased approach of plant refurbishment geared towards unlocking capacity, enhancing efficiency and improving the Company's cost structure is predicated on proceeds from sale of land mentioned above.
2. Achievement of significant cost reductions accruing from improved plant utilization and efficiency dependent on application of funds from sale of land.
3. Presence of sufficient markets and demand for the significantly higher forecasted volumes to be produced over the next 5 years (83% volume growth in first year and 21% volume growth on average thereafter).
4. Achievement of significant working capital improvements beyond current levels.
5. Successful conclusion of negotiations of debt repayment plans with lenders and other creditors.
6. Reduction of concentration risk of a key customer and focus on cost reduction attributed to plant efficiencies.

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*

The Group has applied the following standards and amendments for the first time for the annual reporting year commencing 1 July 2022. These amendments did not have a material impact on the Group's financial statements.

**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)*

<b>Standard</b>	<b>Executive summary</b>	<b>Effective date</b>
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	<p>The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.</p> <p>To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.</p>	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	<p>The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.</p> <p>The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:</p> <ul style="list-style-type: none"> <li>• right-of-use assets and lease liabilities, and</li> <li>• decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.</li> </ul> <p>The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.</p>	1 January 2023

**Notes (continued)**

**2 Summary of significant accounting policies(continued)**

**(a) Basis of preparation(continued)**

**Changes in accounting policy and disclosures (continued)**

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

The Group has not applied the following new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1 July 2023, and the Directors do not plan to apply any of them until they become effective. They are not expected to have a significant impact on the financial statements.

<b>Standard</b>	<b>Executive summary</b>	<b>Effective date</b>
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024
Amendment to IAS 12 - International tax reform - pillar two model rules	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	1 January 2024
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	Annual periods beginning on or after 1 January 2024 (with transitional reliefs in the first year).
IFRS S1, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	Reporting periods beginning on or after 1 January 2024. This is subject to endorsement of the standards by local jurisdictions.

**Notes (continued)**

**2 Summary of significant accounting policies(continued)**

**(a) Basis of preparation(continued)**

**Changes in accounting policy and disclosures (continued)**

*(ii) New and amended standards not yet adopted by the Group (continued)*

<b>Standard</b>	<b>Executive summary</b>	<b>Effective date</b>
IFRS S2, 'Climate-related disclosures'	This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.	Reporting periods beginning on or after 1 January 2024. This is subject to endorsement of the standards by local jurisdictions.

The directors do not plan to apply the above standards until they become effective. There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on near 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.

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.

## Notes (continued)

### 2 Summary of significant accounting policies(continued)

#### (b) Consolidation (continued)

##### *(ii) Subsidiaries (continued)*

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.

##### *Sale of cement and paving blocks*

Revenue from sale of cement and paving block is recognised as 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.

#### (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.

## Notes (continued)

### 2 Summary of significant accounting policies(continued)

#### (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

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.

##### *(i) Current income tax*

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 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 plant was revalued on 30 June 2023 to assess impairment.

## 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. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated 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.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to 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.

#### (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. Inventories could become impaired if their cost is not recoverable and entities must write down such inventories to their net realisable value.

## **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.

## Notes (continued)

### 2 Summary of significant accounting policies(continued)

#### (m) Financial instruments

##### 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)

#### (m) 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.

#### (n) 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

#### (o) 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)

#### (p) 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)

#### (q) 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.

#### (r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### (s) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

#### (t) 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.

#### (u) 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.

## Notes (continued)

### 2 Summary of significant accounting policies(continued)

#### (u) Employee benefits (continued)

##### 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

#### (v) 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).

#### (w) Comparatives

Where necessary, comparative numbers have been adjusted 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.

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.

## Notes (continued)

### 3 Financial risk management objectives and policies (continued)

#### *Credit risk (continued)*

For this 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. Full provisions are made for debts that are over 120 days.

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.

For determination of expected credit losses on related parties, the Group uses historical patterns to determine the future payment patterns. The expected future payments are then discounted to take into account the time value of money.

Specific provisions are made for other receivable amounts.

If the Group does not have reasonable and supportable information to identify significant increases in the credit risk and/or to measure lifetime credit losses when there has been as 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 Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, that is, when the debtor has been placed under liquidation, or in the case of trade receivables, when the amounts that are overdue are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit and loss.

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

	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Net carrying amount</b>
	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
<b>At 30 June 2023 – Group</b>			
Trade receivables (Note 23)	441,462	(428,252)	13,210
Other receivables. (Note 23)	505,092	(430,571)	74,521
Amount due from related parties (Note 23 &34(iii))	427,127	(70,694)	356,433
Cash at bank balances (Note 21)	80,281	-	80,281
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	1,453,962	(929,517)	524,445
	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**3 Financial risk management objectives and policies(continued)**

*Credit risk (continued)*

**At 30 June 2022 – Group**

Trade receivables (Note 23)	412,800	(405,439)	7,361
Other receivables (Note 23)	494,504	(430,571)	63,933
Amount due from related parties (Note 23 & 34(iii))	916,141	(227,833)	688,308
Cash at bank balances (Note 21)	37,108	-	37,108
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	1,860,553	(1,063,843)	796,710
	<hr/>	<hr/>	<hr/>

	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Net carrying amount</b>
	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>

**At 30 June 2023 - Company**

Trade receivables (Note 23)	869,994	(811,957)	58,037
Other receivables (Note 23)	503,868	(430,571)	73,297
Due from related parties (Note 23 & 34(iii))	427,127	(70,694)	356,433
Cash at bank balances (Note 21)	66,413	-	66,413
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	1,867,402	(1,313,222)	554,180
	<hr/>	<hr/>	<hr/>

**At 30 June 2022 – Company**

Trade receivables (Note 23)	793,522	(763,888)	29,634
Other receivables (Note 23)	453,094	(430,571)	22,523
Due from related parties (Note 23 & 34(iii))	916,141	(227,833)	688,308
Cash at bank balances (Note 21)	26,844	-	26,844
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	2,189,601	(1,422,292)	767,309
	<hr/>	<hr/>	<hr/>

Other receivable balances disclosed above excludes prepayments.

No collateral is held in respect of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

At 30 June 2023, the Company has used the simplified approach under IFRS 9 for measuring the expected credit loss for trade receivables.

The Company's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The impact of forward looking information is immaterial as the debtors are current. The loss allowance provision for trade receivables is determined as follows:

**Notes (continued)**

**3 Financial risk management objectives and policies(continued)**

*Credit risk (continued)*

	Gross carrying amount Shs'000	Loss Rates	Loss allowance Shs'000	Net carrying amount Shs'000
<b>At 30 June 2023- Group</b>				
<i>Aged debtor balances</i>				
Current	4,566	3%	(132)	4,434
16 to 30 days	3,868	5%	(205)	3,663
31 to 60 days	5,165	63%	(3,257)	1,908
61 to 90 days	25,946	88%	(22,741)	3,205
Over 90 days	401,917	100%	(401,917)	-
	441,462		(428,252)	13,210

	Gross carrying amount Shs'000	Loss Rates	Loss allowance Shs'000	Net carrying amount Shs'000
<b>At 30 June 2022- Group</b>				
<i>Aged debtor balances</i>				
Current	2,307	11%	(245)	2,062
16 to 30 days	3,074	13%	(410)	2,664
31 to 60 days	4,453	41%	(1,845)	2,608
61 to 90 days	22,948	100%	(22,921)	27
Over 90 days	380,018	100%	(380,018)	-
	412,800		(405,439)	7,361

<b>At 30 June 2023- Company</b>				
<i>Aged debtor balances</i>				
Current	22,620	4%	(884)	21,736
16 to 30 days	9,605	26%	(2,467)	7,138
31 to 60 days	10,001	86%	(8,553)	1,448
61 to 90 days	10,191	91%	(9,225)	966
Over 90 days	817,577	97%	(790,828)	26,749
	869,994		(811,957)	58,037

<b>At 30 June 2022- Company</b>				
<i>Aged debtor balances</i>				
Current	20,631	4%	(832)	19,799
16 to 30 days	8,761	26%	(2,321)	6,440
31 to 60 days	9,122	90%	(8,200)	922
61 to 90 days	9,296	90%	(8,327)	969
Over 90 days	745,712	100%	(744,208)	1,504
	793,522		(763,888)	29,634

## Notes (continued)

### 3 Financial risk management objectives and policies(continued)

#### 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 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 assets and 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

##### 30 June 2023

	<3 months Shs'000	3 - 6 months Shs'000	6 – 12 months Shs'000	1 - 5 years Shs'000	Total Shs'000
<b>Financial assets</b>					
Cash and cash equivalents (Note 21)	80,281	-	-	-	80,281
Trade and other receivables less prepayments (Note 23)	224,265	177,248	42,651	-	444,164
<b>Financial liabilities</b>					
Trade and other payables less government related (Note 28)	(1,371,635)	(2,970,233)	(3,732,996)	(514,651)	(8,589,515)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(14,274)	(44,942)
Borrowings (undiscounted)	-	-	-	(1,942,945)	(1,942,945)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	-	-	-	-	-
<b>Net financial liabilities</b>	<b>(1,077,312)</b>	<b>(2,803,208)</b>	<b>(3,802,247)</b>	<b>(2,471,870)</b>	<b>(10,154,637)</b>

##### 30 June 2022

	<3 months Shs'000	3 - 6 months Shs'000	6 – 12 months Shs'000	1 - 5 years Shs'000	Total Shs'000
<b>Financial assets</b>					
Cash and cash equivalents (Note 21)	38,746	-	-	-	38,746
Trade and other receivables less prepayments (Note 23)	259,602	250,000	250,000	-	759,602
<b>Financial liabilities</b>					
Trade and other payables less government related (Note 28)	(290,166)	(3,244,945)	(4,273,779)	-	(7,808,890)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(27,398)	(58,066)
Borrowings (undiscounted)	(3,972,201)	-	-	-	(3,972,201)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	(1,590)	-	-	-	(1,590)
<b>Net financial assets liabilities</b>	<b>(3,975,832)</b>	<b>(3,005,168)</b>	<b>(4,135,681)</b>	<b>(27,398)</b>	<b>(11,144,079)</b>

**Notes (continued)**

**3 Financial risk management objectives and policies(continued)**

*Liquidity risk (continued)*

**Company**

**30 June 2023**

	<b>&lt;3 months Shs'000</b>	<b>3 - 6 months Shs'000</b>	<b>6 – 12 months Shs'000</b>	<b>1 - 5 years Shs'000</b>	<b>Total Shs'000</b>
<b>Financial assets</b>					
Cash and cash equivalents (Note 21)	66,413	-	-	-	66,413
Trade and other receivables less prepayments (Note 23)	228,665	177,248	81,854	-	487,767
<b>Financial liabilities</b>					
Trade and other payables less government related (Note 28)	(1,371,635)	(2,970,233)	(3,732,996)	(514,651)	(8,589,515)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(14,274)	(44,942)
Borrowings (undiscounted)	-	-	-	(1,942,945)	(1,942,945)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	-	-	-	-	-
<b>Net financial assets liabilities</b>	(1,086,780)	(2,803,208)	(3,763,044)	(2,471,870)	(10,124,902)

**30 June 2022**

	<b>&lt;3 months</b>	<b>3 - 6 months</b>	<b>6 – 12 months</b>	<b>1 - 5 years</b>	<b>Total</b>
<b>Financial assets</b>					
Cash and cash equivalents (Note 21)	27,411	-	-	-	27,411
Trade and other receivables less prepayments (Note 23)	240,465	250,000	250,000	-	740,465
<b>Financial liabilities</b>					
Trade and other payables less government related (Note 28)	(287,385)	(3,004,737)	(4,273,780)	-	(7,565,902)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(27,398)	(58,066)
Borrowings (undiscounted)	(3,972,201)	-	-	-	(3,972,201)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	(1,590)	-	-	-	(1,590)
<b>Net financial assets liabilities</b>	(4,003,523)	(2,764,960)	(4,135,682)	(27,398)	(10,931,563)

**Notes (continued)**

**3 Financial risk management objectives and policies(continued)**

**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

The forex exposure is as detailed below:

	Euros Shs'000	US Dollars Shs'000	Uganda Shillings Shs'000	Total Shs'000
<b>Assets</b>				
Cash and bank balance	-	4,922	2,646	7,568
Receivables	-	3,469	-	3,469
<b>Total assets</b>		8,391	2,646	11,037
<b>Liabilities</b>				
Trade payables	22	26,946	2,926	29,872
Other liabilities	-	240,208	-	240,208
<b>Total liabilities</b>	22	267,154	2,926	270,080
<b>Net exposure</b> At 30 June 2022	22	258,763	280	259,043
<b>Assets</b>				
Cash and bank balance	-	-	-	-
Receivables	-	667,308	83,339	750,647
<b>Total assets</b>	-	667,308	83,339	750,647
<b>Liabilities</b>				
Trade payables	-	106,573	-	106,573
Other liabilities	-	304,412	3,399	307,811
<b>Total liabilities</b>	-	410,985	3,399	414,384
<b>Net exposure</b> At 30 June 2023	-	256,323	79,940	336,263

At 30 June 2023 if the Shilling had weakened/strengthened by 30% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 76,896,900 higher/lower (2022:77,628,900), mainly as a result of US Dollar denominated trade payables and cash balances.

At 30 June 2023, if the Shilling had weakened/strengthened by 10% against the Ugandan Shilling with all other variables held constant, post-tax profit for the year would have been Shs 7,994,000 higher/lower (2022: Shs 28,000), mainly as a result of Ugandan Shilling denominated trade payables and bank balances.

**Notes (continued)**

**3 Financial risk management objectives and policies(continued)**

**Market risk (continued)**

*(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 2023, if the interest rate had increased /decreased by 100 basis points with all other variables held constant, loss for the year would have been Shs nil (2022: Shs 7,757,890) 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 2023 and 2022 are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
Equity(i)	19,214,263	21,581,291	19,253,086	22,558,714
Debt (ii) (Note 26)	1,942,945	3,805,905	1,942,945	3,805,905
Lease liabilities (Note 33)	35,159	43,861	35,159	43,861
Less cash and cash equivalents (Note 21)	(80,281)	(37,156)	(66,413)	(25,821)
<b>Net debt</b>	<b>1,897,823</b>	<b>3,812,610</b>	<b>1,911,691</b>	<b>3,823,945</b>
<b>Gearing ratio</b>	<b>10%</b>	<b>18%</b>	<b>10%</b>	<b>17%</b>

- 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 trade receivables 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).

The company has made use of a simplified model for the determination of expected credit loss allowance which analyses historical loss rates per ageing brackets. The impact of forward looking information is then assessed on resulting historical loss rates.

If the expected credit loss rates on the financial assets had increased /decreased by 100 basis points with all other variables held constant, profit for the year would have been Shs 1,200,570 (2022: Shs 545,500) higher /lower.

#### *(ii) Recoverability of deferred income 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.

At 30 June 2023, if the deferred tax asset had been recognised with all other variables held constant, net profit for the year would have been Shs 133,408,800 (2022: Shs 273,276,000) higher.

#### *(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 as well as the topography.

Management has made significant judgement in determining the fair value of the investment property and in recognition of parcels that are occupied by squatters as disclosed under note 18.

## Notes (continued)

### 4 Critical accounting estimates and judgements(continued)

#### (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 determination depreciated replacement costs and in adjusting values of recent sales of neighbouring properties to consider the size of the Group's land.

Management has made significant judgement in determining the determining the fair value of the investment property. The sensitivity disclosures have been disclosed under note 16.

#### (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.

### 5 Segment information

The chief operating decision maker is the Board of Directors. Directors have determined the operating segments based on the reports reviewed by management for the purposes of allocating resources, assessing performance and proposing strategic direction.

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

	<b>Group and Company</b>	
	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
The Group revenues are derived from sales in the following markets:		
Local market – Kenya	2,953,573	2,117,809
Regional market (East Africa)	-	25,470
	<hr/>	<hr/>
	2,953,573	2,143,279
	<hr/>	<hr/>

## Notes (continued)

### 5 Segment information (continued)

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 0% (2022: 1%) of the total revenue hence there is only one reportable segment. There is no single customer who contributes more than 10% of the total revenues.

### 6 Revenue

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
<i>Recognised at a point in time:</i>				
Bagged cement – local	2,940,789	2,083,874	2,940,789	2,083,874
Bagged cement – export	-	25,470	-	25,470
Bulk cement – local	12,488	32,365	12,488	32,365
Paving blocks- local	296	1,570	296	1,570
	<u>2,953,573</u>	<u>2,143,279</u>	<u>2,953,573</u>	<u>2,143,279</u>

### 7 Cost of sales

Coal	855,484	529,674	855,484	529,674
Power	536,757	200,920	536,757	200,920
Raw materials used	555,743	777,854	555,743	777,854
Staff costs	487,287	451,292	487,287	451,292
Factory depreciation	363,282	362,186	363,282	362,186
Maintenance costs	234,010	140,524	234,010	140,524
Raw materials transport	234,858	48,258	234,858	48,258
Hired equipment	326,039	209,871	326,039	209,871
Cement levy	54,250	63,976	54,250	63,976
Fuel and repairs	19,346	24,751	19,346	24,751
Furnace oil	31,361	35,332	31,361	35,332
Factory direct supplies	45,318	30,015	45,318	30,015
Factory insurance	5,244	143	5,244	143
Inventory provision	154,507	46,156	154,507	46,156
Explosives	1,022	3,782	1,022	3,782
Factory land rates and rent	4,932	-	4,932	-
Other production overheads	108	64	108	64
Factory water	309	711	309	711
	<u>3,909,857</u>	<u>2,925,509</u>	<u>3,909,857</u>	<u>2,925,509</u>

### 8 Other operating income

Sundry income	3,168	31,894	3,168	31,894
Rental income	14,505	16,113	14,505	16,113
Cement transport recoveries	5,961	9,911	5,961	9,911
Exchange gain on other foreign currency transactions	55,302	16,254	55,302	16,254
	<u>78,936</u>	<u>74,172</u>	<u>78,936</u>	<u>74,172</u>

**Notes (continued)**

9	Selling and distribution expenses	Group	2022	Company	2022
		2023	2022	2023	2022
		Shs'000	Shs'000	Shs'000	Shs'000
	Cement transport	9,472	4,448	9,472	4,448
	Advertising and sales commissions	37,021	3,718	37,021	3,718
	Fuel and repairs	14,049	11,865	14,049	11,865
	Public relations costs	16,722	5,077	16,722	5,077
	Depot rent	9,736	7,675	9,736	7,675
		<u>87,000</u>	<u>32,783</u>	<u>87,000</u>	<u>32,783</u>
<b>10</b>	<b>Administration and establishment expenses</b>				
	Staff costs	546,752	492,780	546,752	492,780
	Depreciation of property, plant and equipment	43,882	44,447	43,882	44,447
	Hired services	71,599	61,062	71,599	61,062
	Computer expenses	30,716	31,182	30,716	31,182
	Amortization of right of use assets (Note 33)	17,257	17,883	17,257	17,883
	Amortization of intangible assets (Note 20)	5,676	1,456	5,676	1,456
	Office general expenses	54,625	39,317	54,625	39,317
	Board expenses	19,864	18,242	19,864	18,242
	Office supplies	3,696	1,778	3,696	1,778
	Telephone and postage	17,460	13,583	17,460	13,583
	Travelling expenses	10,656	11,960	10,656	11,960
	Printing and stationery	3,065	1,315	3,065	1,315
	Motor vehicle expenses	15,429	6,519	15,429	6,519
	Electricity	751	938	751	938
	Company functions	3,237	1,253	3,237	1,253
		<u>844,665</u>	<u>743,715</u>	<u>844,665</u>	<u>743,715</u>
<b>11 (a)</b>	<b>Other operating expenses</b>				
	Loss on disposal of property, plant & equipment	91,690	38,998	91,690	38,998
	Legal provision	-	25,200	-	25,200
	Legal fees	74,612	64,623	74,612	64,623
	Provision for staff dues and tax liabilities*	7,551	208,487	7,551	208,487
	Auditors' remuneration	9,720	8,923	9,720	8,923
	Professional fees	25,476	49,463	25,476	49,463
	Fines and penalties	24,968	8,797	24,968	8,797
	Bank charges	1,605	3,807	1,605	3,807
	Subscriptions	1,448	1,498	1,448	1,498
	Donation	-	135	-	135
		<u>237,070</u>	<u>409,931</u>	<u>237,070</u>	<u>409,931</u>

\*The provision for staff dues and tax liabilities comprises of penalties and late interest charged for late remittance of statutory deductions such as Pay as you earn (PAYE) and pension contributions.

**Notes (continued)**

11 (b) Expected credit loss allowance movement	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Loss allowance on trade receivables (Note 23)	48,069	38,088	48,069	38,088
Unwinding of discount of Kenya Railways receivable (Note 23)	(168,125)	(92,638)	(168,125)	(92,638)
	(120,056)	(54,550)	(120,056)	(54,550)

12 Finance costs	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Interest charged on loans (Note 26)	-	65,667	-	65,667
Exchange loss on other liabilities (Note 28)	64,204	29,544	64,204	29,544
Interest on lease liabilities (Note 33(a))	3,315	5,641	3,315	5,641
Interest charged on overdraft and letter of credit	3,075	-	3,075	-
	70,594	100,852	70,594	100,852

13 Employee benefits expense	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Salaries and wages	742,882	745,391	742,882	745,391
Restructuring costs	-	-	-	-
Retirement benefits costs:				
Defined benefit scheme	271,332	195,691	271,332	195,691
Defined contribution scheme	-	456	-	456
Social security costs (NSSF)	19,825	2,514	19,825	2,514
	1,034,039	944,052	1,034,039	944,052

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

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Production	287	303	287	303
Sales and distribution	51	37	51	37
Management and administration	150	158	150	158
	488	498	488	498

**Notes (continued)**

14 (a) Income tax expense / (credit)	Group and Company	
	2023 Shs'000	2022 Shs'000
Current income tax	4,352	5,618
Deferred income tax (Note 27)	-	(18,004)
	<hr/>	<hr/>
Income tax expense /(credit)	4,352	(12,386)
	<hr/>	<hr/>

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

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
(Loss)/ Profit before income tax	(1,352,115)	529,199	(1,352,115)	529,199
Tax calculated at the statutory income tax rate of 30% (2022: 30%)	(405,635)	158,760	(405,635)	158,760
Tax effect of:				
Fair value gains on investment property	(193,352)	(740,996)	(193,352)	(740,996)
Income not subject to tax	(30,152)	(30,385)	(30,152)	(30,385)
Expenses not deductible for tax purposes	107,032	16,248	107,032	16,248
Deferred tax asset not recognised	526,459	583,987	526,459	583,987
	<hr/>	<hr/>	<hr/>	<hr/>
Income tax expense /(credit)	4,352	(12,386)	4,352	(12,386)
	<hr/>	<hr/>	<hr/>	<hr/>

**(b) Current Income tax**

At start of year	(34,613)	(40,231)	(34,761)	(40,379)
Tax charge for the year	4,352	5,618	4,352	5,618
Tax paid	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(30,261)	(34,613)	(30,409)	(34,761)
	<hr/>	<hr/>	<hr/>	<hr/>

**15 Earnings per share**

Earnings for purposes of basic and diluted earnings per share	(1,356,467)	541,585	(1,356,467)	541,585
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
Earnings per share basic and diluted (Shs)	(15.07)	6.02	(15.07)	6.02
	<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 2023 or 30 June 2022. Therefore, a diluted earnings per share is the same as the basic earnings per share.

**Notes (continued)**

**16 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
<b>At 1 July 2021</b>							
Cost or fair value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Accumulated depreciation	-	-	-	-	-	-	-
<b>Closing net book value</b>	<b>363,000</b>	<b>958,000</b>	<b>5,257,073</b>	<b>106,309</b>	<b>25,859</b>	<b>157,021</b>	<b>6,867,262</b>
<b>Year ended 30 June 2022</b>							
Opening carrying amount	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Additions	-	-	6,717	-	22,862	-	29,579
Cost elimination on disposal	-	-	(88,666)	(11,498)	-	-	(100,164)
Depreciation charge	-	(23,815)	(307,123)	(66,630)	(9,064)	-	(406,632)
Depreciation eliminated on disposal	-	-	5,589	1,438	335	-	7,362
<b>Closing net book value</b>	<b>363,000</b>	<b>934,185</b>	<b>4,873,590</b>	<b>29,619</b>	<b>39,992</b>	<b>157,021</b>	<b>6,397,407</b>
<b>At 30 June 2022</b>							
Cost or fair value	363,000	958,000	5,175,124	94,811	48,721	157,021	6,796,677
Accumulated depreciation	-	(23,815)	(301,534)	(65,192)	(8,729)	-	(399,270)
<b>Closing net book value</b>	<b>363,000</b>	<b>934,185</b>	<b>4,873,590</b>	<b>29,619</b>	<b>39,992</b>	<b>157,021</b>	<b>6,397,407</b>
<b>Year ended 30 June 2023</b>							
Opening carrying amount	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407
Additions	-	-	101,677	-	8,196	-	109,873
Cost elimination on disposal	-	-	(18,453)	-	(15,755)	-	(34,208)
Depreciation charge	-	(23,815)	(367,135)	(3,992)	(12,221)	-	(407,163)
Depreciation eliminated on disposal	-	-	2,050	-	3,911	-	5,961
Impairment loss	-	-	(960,784)	-	-	-	(960,784)
<b>Closing net book value</b>	<b>363,000</b>	<b>910,370</b>	<b>3,630,945</b>	<b>25,627</b>	<b>24,123</b>	<b>157,021</b>	<b>5,111,086</b>
<b>At 30 June 2023</b>							
Cost or fair value	363,000	958,000	5,258,348	94,811	41,162	157,021	6,872,342
Accumulated depreciation	-	(47,630)	(666,619)	(69,184)	(17,039)	-	(800,472)
Impairment loss	-	-	(960,784)	-	-	-	(960,784)
<b>Net book value</b>	<b>363,000</b>	<b>910,370</b>	<b>3,630,945</b>	<b>25,627</b>	<b>24,123</b>	<b>157,021</b>	<b>5,111,086</b>

**Notes (continued)**

**16 Property, plant and equipment- Company**

	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
<b>At 1 July 2021</b>							
Cost or fair value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Accumulated depreciation	-	-	-	-	-	-	-
Closing net book value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
<b>Year ended 30 June 2022</b>							
Opening carrying amount	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Additions	-	-	6,717	-	22,862	-	29,579
Cost elimination on disposal	-	-	(88,666)	(11,498)	-	-	(100,164)
Depreciation charge	-	(23,815)	(307,123)	(66,630)	(9,064)	-	(406,632)
Depreciation eliminated on disposal	-	-	5,589	1,438	335	-	7,362
Closing net book value	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407
<b>At 30 June 2022</b>							
Cost or fair value	363,000	958,000	5,175,124	94,811	48,721	157,021	6,796,677
Accumulated depreciation	-	(23,815)	(301,534)	(65,192)	(8,729)	-	(399,270)
Closing net book value	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407
<b>Year ended 30 June 2023</b>							
Opening carrying amount	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407
Additions	-	-	101,677	-	8,196	-	109,873
Cost elimination on disposal	-	-	(18,453)	-	(15,755)	-	(34,208)
Depreciation charge	-	(23,815)	(367,135)	(3,992)	(12,221)	-	(407,163)
Depreciation eliminated on disposal	-	-	2,050	-	3,911	-	5,961
Impairment loss	-	-	(960,784)	-	-	-	(960,784)
Closing net book value	363,000	910,370	3,630,945	25,627	24,123	157,021	5,111,086
<b>At 30 June 2023</b>							
Cost or fair value	363,000	958,000	5,258,348	94,811	41,162	157,021	6,872,342
Accumulated depreciation	-	(47,630)	(666,619)	(69,184)	(17,039)	-	(800,472)
Impairment loss	-	-	(960,784)	-	-	-	(960,784)
Net book value	363,000	910,370	3,630,945	25,627	24,123	157,021	5,111,086

## Notes (continued)

### 16 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 2021. 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 and 9767, and plant and machinery have been charged to secure loan facilities as disclosed under Note 26.

Critical spares included in plant and machinery amounted to Shs 68,487,009 (2022: 76,561,452) for the Group and Company.

Work in progress mainly relates to costs incurred towards assembling a grate cooler for the kiln. Target capitalization date for the grate cooler is expected by end of the third quarter for the year ending 30 June 2024.

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
<b>30 June 2023</b>							
Cost	120,637	139,965	5,304,254	326,009	85,997	157,021	6,133,883
Accumulated depreciation	-	(83,480)	(2,231,862)	(321,078)	(61,036)	-	(2,697,456)
Net book value	120,637	56,485	3,072,392	4,931	24,961	157,021	3,436,427
<b>30 June 2022</b>							
Cost	120,637	139,965	5,202,599	342,390	89,624	157,021	6,052,236
Accumulated depreciation	-	(79,981)	(1,581,537)	(251,861)	(35,939)	-	(1,949,318)
Net book value	120,637	59,984	3,621,062	90,529	53,685	157,021	4,102,918

#### 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 property, plant and equipment were measured based on Level 3 inputs as at 30 June 2023 and 30 June 2022. 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)**

**16 Property, plant and equipment (continued)**

**Fair value hierarchy (continued)**

Details of the Group's and Company's Property, Plant and equipment and information about fair value hierarchy as at 30 June 2023 are as follows:

Group and Company	Level 1	Level 2	Level 3	Fair value as at 30 June 2023	Fair value as at 30 June 2022
	Shs'000	Shs'000	Shs'000	Shs'000	
Freehold land	-	-	363,000	363,000	363,000
Buildings	-	-	910,370	910,370	958,000
Plant and Machinery	-	-	3,630,945	3,630,945	5,061,227
Motor vehicles	-	-	25,627	25,627	302,365
Computers, office equipment and Fittings	-	-	24,123	24,123	25,629
	-	-	4,954,065	4,954,065	6,710,221

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements:

Instrument	Level	Valuation basis	Significant unobservable inputs	Sensitivity of input to the fair value
Freehold land	3	Market approach	Average value per acre	Increase/ (decrease) in the average value per acre by 10% would decrease/ (increase) fair value by Shs 36,300,000
Buildings	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 584,000.
Property, plant and equipment	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 33,008,000.
Motor vehicles	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 565,000.
Computers, office equipment and Fittings	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 2,132,000.

**Notes (continued)**

**16 Property, plant and equipment (continued)**

**Fair value hierarchy (continued)**

**Basis of Valuation**

In valuing the foregoing plant and machinery assets, Depreciated Replacement Cost (DRC) approach/basis in line with International Valuation Standards (IVS) 105 and 300 has been adopted. In this approach, gross current Replacement Costs (RCs) for respective machines have been computed while making appropriate adjustment for freight, taxes, delivery, installation and subsequent commissioning as appropriate as well as any upgrade works that may result in extended economic lifespan and appreciation of the items. The accumulated depreciation was then deducted from its corresponding RC before factoring a condition rating to take cognizance of functional, technical and economical obsolescence and prevailing conditions. The resulting value (Depreciated Replacement Cost) so obtained represents a fair estimate of the market value that the concerned machine or equipment shall trade between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein both parties have each acted knowledgeably, prudently and without compulsion.

**Estimated Economic Lifespan**

Estimated economic life/life expectancy assigned to the machines have been obtained through empirical observation, consultant's own professional experience with cement and related products manufacturing plant and machinery, field survey and more importantly a readjustment on the published guidelines in light of the periodical repairs and maintenance work schedules in place. A good number plant and machinery assets installed and commissioned in 1960 had served well beyond the conventional economic lifespan of 30 years. Nonetheless, these categories of assets were still in fair operational condition attributable to continuous refurbishment and repairs works carried from time to time.

**Impairment loss**

The Company enlisted the expertise of a consultant to conduct a desktop study regarding the potential impairment of Property, Plant, and Equipment (PPE), with focus on plant and machinery. The outcomes of this evaluation have been integrated into the financial statements in accordance with IAS 36 and IAS 16. A comprehensive valuation of PPE will be concluded within the current financial year, in adherence to our accounting policy, ensuring accurate and transparent reporting of the company's assets

**17 Prepaid operating leases**

	<b>Group and Company</b>	
	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Cost</b>		
At the beginning of the year	8,792	8,792
<b>Amortisation</b>		
At the beginning of the year	3,917	3,856
Charge for the year	-	61
	<hr/>	<hr/>
At end of year	3,917	3,917
	<hr/>	<hr/>
<b>Net carrying amount</b>	<b>4,875</b>	<b>4,875</b>
	<hr/>	<hr/>

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 was re-classified to right of use assets to be amortised on straight line basis over the lease term as disclosed on Note 33(b). The Group assets have been charged to secure loan facilities as disclosed in Note 26.

**Notes (continued)**

**18 Investment properties**

	<b>Group and Company</b>	
	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	27,372,448	25,271,720
Gross fair value gain in the year	1,070,376	2,895,858
Less: Estimated squatter eviction costs	(425,870)	(425,870)
Net fair value gain in the year	644,506	2,469,988
Disposals	(2,107,256)	(369,260)
	25,909,698	27,372,448

Investment properties relate to twenty-six pieces of leasehold land (5,938 acres) held by the Group under long-term lease arrangements following successful subdivision of LR 10424 into twenty one parcels. 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 by the estimated squatter eviction costs.

Approximately 37% of the total land, with an estimated carrying value of Shs 7,015,307,000, was occupied by squatters at the year end. However, the directors are confident that the company has the ability to exercise control over the total land by evicting the squatters. The company has been assured by the Government of Kenya that it will receive the necessary support towards fully repossessing the occupied land and clearing out the squatters. Subsequent to the year end, the Company also won a court case against the squatters confirming its ownership of the property and commenced evictions and erection of barriers and trenches to curtail any further encroachment. The estimated squatter eviction costs of Shs 425,870,000 as at 30 June 2023 (2022: Shs 425,870,000) have been deducted from the gross fair value of the land. The valuers are registered valuers and have recent experience in the location and the category of the investment property being valued.

The Company voluntarily surrendered LR 10425 totalling 4,272 acres to the National Government, in support of the affordable housing agenda, in October 2019 following shareholder approval vide an Extraordinary General Meeting held on 27th September 2019. The Central Organization of Trade Unions filed petition number 46 of 2019 in the Environment and Lands Court objecting the surrender which was upheld vide ruling delivered in December 2022. However, the Company did not recognise the value of the property in the books as the title had not been transferred back to the Company. In the current year, the Company entered into a deed of settlement with the National Government, The Central Organization of Trade Unions and National Social Security Fund in July 2023 and agreed to allow the Government to retain the property and develop a smart city on the land and as such the value of the property has not been recognised in these financial statements.

Group and Company Investment properties were measured based on Level 3 inputs as at 30 June 2023 and 30 June 2022. The land was valued on an open market value basis. There were no transfers between Levels 1, 2 and 3 in the period

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements:

<b>Asset</b>	<b>Level</b>	<b>Valuation basis</b>	<b>Significant unobservable Inputs</b>	<b>Assumption value per valuation</b>	<b>Sensitivity of input to the fair value</b>
Investment property Investment property	3	Market approach	Average value per acre	Average of Shs 5,329,000 per acre	At 30 June 2023, if the average value per acre of investment properties had increased by 10% with all other variables held constant, loss for the year would have been Shs 3,164,521,000 (2022: Shs 3,236,960,000) higher /lower.
	3	Market approach	Haircut to illiquidity for	Between 18% and 30%	At 30 June 2023, if the haircut had had increased by 10% with all other variables held constant, loss for the year would have been Shs 573,551,000 (2022: Shs 181,176,000) higher /lower

## Notes (continued)

### 19 Investment in subsidiary

Company	Beneficial ownership	Country of incorporation	2023 Shs'000	2022 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.

### 20 Intangible Assets

Intangible assets relate to computer software in use by the group. The table below shows the movement of the liability.

	Group and Company	
	2023 Shs'000	2022 Shs'000
<b>Cost</b>		
At the beginning of year	6,726	-
Additions	5,174	6,726
At end of year	11,900	6,726
<b>Amortization</b>		
At the beginning of the year	(1,456)	-
Charge for the year	(5,676)	(1,456)
At end of year	(7,132)	(1,456)
<b>Net carrying amount</b>	4,768	5,270

### 21 Cash and cash equivalents

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Bank balances	77,966	37,108	65,408	26,844
Cash on hand	2,315	1,638	1,005	567
	80,281	38,746	66,413	27,411

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

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Cash and cash equivalents	80,281	38,746	66,413	27,411
Bank overdraft (Note 26)	-	(1,590)	-	(1,590)
	80,281	37,156	66,413	25,821

**Notes (continued)**

22 Inventories	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Consumables	844,218	898,045	844,218	898,045
Raw materials	257,064	110,946	257,064	110,946
Work-in-progress	9,502	5,170	9,502	5,170
Finished products	18,940	7,075	21,982	9,562
	1,129,724	1,021,236	1,132,766	1,023,723
Provision for obsolete inventories	(256,129)	(97,152)	(256,129)	(97,152)
	873,595	924,084	876,637	926,571

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,240,337,000 (2022: Shs 1,384,589,000) for the Group and Company.

No inventory was written off in the current year.

23 Trade and other receivables	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Gross trade receivables	441,462	412,800	869,994	793,522
Impaired trade receivables	(428,252)	(405,439)	(811,957)	(763,888)
Net trade receivables	13,210	7,361	58,037	29,634
Prepayments and deposits	303,592	276,560	303,592	276,560
Other receivables	74,521	63,933	73,297	22,523
Amount due from related parties (Note 34(iii))	356,433	688,308	356,433	688,308
	747,756	1,036,162	791,359	1,017,025
<b>Amount due from related parties</b>				
Gross amount due from related parties	427,127	916,141	427,127	916,141
Impairment	(238,819)	(320,471)	(238,819)	(320,471)
Reversal of impairment on Kenya Railways receivable	168,125	92,638	168,125	92,638
Net impairment	(70,694)	(227,833)	(70,694)	(227,833)
Net due from related parties (Note 34 (iii))	356,433	688,308	356,433	688,308
<b>Other receivables</b>				
Gross -Other receivables	505,092	494,504	503,868	453,094
Impairment	(430,571)	(430,571)	(430,571)	(430,571)
Net other receivables	74,521	63,933	73,297	22,523

**Notes (continued)**

**23 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 2023 reconcile to the opening loss allowances as set out below;

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Opening loss allowance	405,439	367,351	763,888	725,800
Increase in loss allowance (Note 11 (b))	48,069	38,088	48,069	38,088
	<u>453,508</u>	<u>405,439</u>	<u>811,957</u>	<u>763,888</u>

**24 Share capital and reserves**

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
<b>(a) Share capital</b>				
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
<b>(b) Share premium</b>	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.

**(c) Asset revaluation reserve**

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Asset revaluation reserve	103,935	1,031,948	103,935	1,031,948

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.

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
<b>(d) Other reserves</b>				
Foreign currency translation reserve	(38,681)	22,700	-	-
Post-employment benefits reserve	290,639	279,035	290,658	279,035
	<u>251,958</u>	<u>301,735</u>	<u>290,658</u>	<u>279,035</u>

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. Post-employment benefits reserve is used to record actuarial gains or losses arising from changes in demographic and financial assumptions recognised in other comprehensive income.

## Notes (continued)

### 25 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 Between 1 and 10 years More than 10 years	Nil 25 days final basic salary 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	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Staff gratuity – current	533,641	521,181	533,641	521,181
Staff gratuity – non-current	-	-	-	-
	<u>533,641</u>	<u>521,181</u>	<u>533,641</u>	<u>521,181</u>

The current liability portion relates to employees whose contracts are ending between September and December 2023

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

	Group and Company	
	2023 Shs'000	2022 Shs'000
Current service cost	120,669	125,010
Net interest expense	77,467	70,681
Component of defined benefit costs recognised in profit or loss	<u>198,136</u>	<u>195,691</u>
Actuarial losses arising from changes in demographic and financial assumptions recognised in other comprehensive income	<u>(16,604)</u>	<u>(60,014)</u>
	<u>181,532</u>	<u>135,677</u>

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

	Group and Company		
	Before tax Shs'000	Tax charge Shs'000	After tax Shs'000
<b>Year ended 30 June 2023</b>			
Actuarial gain –expert valuations	(16,604)	4,981	(11,623)
	<u>(16,604)</u>	<u>4,981</u>	<u>(11,623)</u>

**Notes (continued)**

**25 Post-employment benefit obligations(continued)**

Year ended 30 June 2022-	Group and Company		
	Before tax Shs'000	Tax charge Shs'000	After tax Shs'000
Actuarial gain –expert valuations	(60,014)	18,004	(42,010)

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

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
At start of year	521,181	427,341	521,181	427,341
Current service cost	120,669	125,010	120,669	125,010
Net interest expense	77,467	70,681	77,467	70,681
Actuarial loss/(gain) arising from changes in financial assumptions	10,249	(35,140)	10,249	(35,140)
Actuarial gain arising from changes in demographic assumptions	(26,853)	(24,874)	(26,853)	(24,874)
Benefit paid	(169,072)	(41,837)	(169,072)	(41,837)
At end of year	533,641	521,181	533,641	521,181

The significant actuarial assumptions used were as follows:

	Group and Company	
	2023 Shs'000	2022 Shs'000
Discount rate (%)	14.6%	13.9%
Average salary escalation rate (%)	10%	10%

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 34,600,000.
- A 1% increase/decrease on the salary escalation rate would not have a material impact on defined benefit obligation as at 30 June 2023.

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)**

**26 Borrowings**

The borrowings are analysed as follows;

	2023 Shs'000	Group and Company 2022 Shs'000
Term loan	-	1,862,960
Government debt (Note 34(iv))	1,942,945	1,942,945
Bank overdraft	-	1,590
	<hr/>	<hr/>
Total borrowings	1,942,945	3,807,495
	<hr/>	<hr/>
Current portion of borrowings	1,942,945	3,807,495
	<hr/>	<hr/>

Reconciliation of liabilities arising from financing activities excluding overdrafts is as shown below:

	2023 Shs'000	Group and Company 2022 Shs'000
At start of year	3,805,905	3,679,415
Additions during the year	366,261	60,823
Interest charged to profit or loss (Note 12)	-	65,667
Interest paid	-	-
Principal repayments	(2,229,221)	-
	<hr/>	<hr/>
	1,942,945	3,805,905
	<hr/>	<hr/>

*i) Government loan*

This relates to the Japanese loan that was taken over by the government on behalf of the Group. The total loan from Overseas Economic Co-operation Fund of Japan (JICA) was JPY 7.67 billion. The interest charged in the loan was 2.5% per annum. The loan was guaranteed by the Kenya government.

There was no Group or Company assets pledged as security, and neither are there any covenants attached to the loan facility. The loan was 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 by the government on 20 March 2022.

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 2023.

*ii) Term Loan*

The Group breached repayment covenants on working capital facilities provided by KCB. Consequently, KCB recalled the outstanding debt under all the facilities. 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. The company concluded transfer of LR 8784/654 to KCB for settlement of the outstanding debt and discharged all the obligations in the current year. This is secured by an all asset debenture over all the assets of the Company and legal charge over certain properties owned by the Company.

**Notes (continued)**

**27 Deferred income tax**

**a) Deferred tax movement**

Deferred income tax is calculated using the enacted income tax rate of 30% (2022: 30%). The movement on the deferred income tax account is as follows:

	<b>Group and Company</b>			
	<b>2023</b>	<b>2022</b>		
	<b>Shs'000</b>	<b>Shs'000</b>		
At start of year	-	-		
Charge to other comprehensive income	-	(18,004)		
Deferred tax credited to profit or loss	-	18,004		
	<hr/>	<hr/>		
At end of year	-	-		
	<hr/>	<hr/>		
<b>Group and Company</b>				
	<b>1 July 2021</b>	<b>Charge/ (credited) to Profit and loss</b>	<b>Charge to OCI</b>	<b>At 30 June 2022</b>
<b>Year ended 30 June 2022</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'00</b>	<b>Shs'000</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	1,515,353	(120,053)	-	1,395,300
Investment properties	1,275,105	93,517	-	1,368,622
	<hr/>	<hr/>	<hr/>	<hr/>
	2,790,458	(26,536)	-	2,763,922
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Deferred tax assets</b>				
Tax losses carried forward (Note 27 (b))	(4,891,984)	(409,925)	-	(5,301,909)
Provisions	(1,011,700)	(86,421)	18,004	(1,080,117)
Leases	(1,571)	4,195		2,624
Other temporary differences	(377,119)	(83,304)		(460,423)
	<hr/>	<hr/>	<hr/>	<hr/>
	(6,282,374)	(575,455)	18,004	(6,839,825)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax asset	(3,491,916)	(601,991)	18,004	(4,075,903)
Deferred tax not recognised	3,491,916	583,987	-	4,075,903
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax liability(asset)	-	(18,004)	18,004	-
	<hr/>	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**27 Deferred income tax**

**a) Deferred tax movement (continued)**

**Group and Company**

	At 1 July 2022	Charge/ (credited) to Profit and loss	Charge to OCI	At 30 June 2023
	Shs'000	Shs'000	Shs'00	Shs'000
<b>Year ended 30 June 2023</b>				
<b>Deferred tax liabilities</b>				
Property, plant and equipment	1,395,300	(371,473)	-	1,023,827
Investment properties	1,368,622	2,517,833	-	3,886,455
	<u>2,763,922</u>	<u>2,146,360</u>	<u>-</u>	<u>4,910,282</u>
<b>Deferred tax assets</b>				
Tax losses carried forward (Note 27 (b))	(5,301,909)	(446,255)	-	(5,748,164)
Provisions	(1,080,117)	(16,140)	4,981	(1,091,276)
Leases	2,624	(6,125)	-	(3,501)
Other temporary differences	(460,423)	18,325	-	(442,098)
	<u>(6,839,825)</u>	<u>(450,195)</u>	<u>4,981</u>	<u>(7,285,039)</u>
Net deferred income tax asset	(4,075,903)	1,696,165	4,981	(2,374,757)
Deferred tax not recognised	4,075,903	(1,696,165)	(4,981)	2,374,757
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred income tax liability(asset)	-	-	-	-

**b) Ageing of tax losses**

The ageing 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
2020/21	1,450,483
2021/22	409,925
2022/23	446,255
	<u>5,748,164</u>
Total	5,748,164

**Notes (continued)**

**28 Trade and other payables**

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Trade payables	2,665,661	2,430,924	2,665,661	2,430,925
Other payables and accruals	2,990,255	2,524,837	2,986,855	2,522,056
Staff payables	2,553,481	2,425,294	2,553,481	2,425,294
Due to related parties (Note 34 (iv))	1,993,179	2,115,454	1,993,179	2,115,454
Advance receipts from customers	407,879	57,248	407,879	57,248
Other liabilities	342,788	240,208	342,790	240,208
At end of year	10,953,243	9,793,965	10,949,845	9,791,185

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.

Other payables and accruals comprise legal fees litigation provisions, unpaid cement levy and accruals for Goods Received Notes.

Staff payables include provision for various staff related legal cases and unpaid amounts due to employees resulting from previous restructuring done.

Other Liabilities

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 Shs 186,220,000 as at 30 June 2018. The liability amounted to Shs 304,412,000 as at 30 June 2023 (2022: Shs 240,208,000).

The table below shows the movement of the liability

	Group and Company	
	2023 Shs'000	2022 Shs'000
At start of year		
Foreign exchange loss	240,208	210,664
	64,204	29,544
At end of year	304,412	240,208

**29 Dividend payable**

	Group and Company	
	2023 Shs'000	2022 Shs'000
Dividend payable	101,680	101,680

The dividend payable amount relates to dividends declared for the years ended 30 June 2012 and 30 June 2015.

## Notes (continued)

### 30 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 resolved 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.

### 31 Capital commitments

	Group and Company	
	2023	2022
	Shs'000	Shs'000
Authorised by the directors but not contracted for	666,834	680,438

### 32 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations

	Group		Company	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
(Loss)/ Profit before taxation	(1,352,115)	529,199	(1,352,115)	529,199
Adjustments for:				
Depreciation of PP&E (Note 16)	407,163	406,632	407,163	406,632
Depreciation of right-of-use assets (Note 33)	17,257	17,883	17,257	17,883
Amortisation on prepaid operating leases (Note 17)	-	61	-	61
Amortisation on intangible assets (Note 20)	5,676	1,456	5,676	1,456
Fair value gain on investment property (Note 18)	(644,506)	(2,469,988)	(644,506)	(2,469,988)
Interest expense on borrowings (Note 26)	-	65,667	-	65,667
Post-employment benefits service cost	52,310	153,858	52,310	153,854
Interest on lease liabilities (Note 33)	3,315	5,641	3,315	5,641
Net cash before working capital changes	(1,510,900)	(1,289,591)	(1,510,900)	(1,289,595)
Changes in working capital:				
Inventories	50,489	160,230	49,934	157,743
Trade and other receivables	288,406	251,108	225,666	238,898
Trade and other payables	1,159,278	432,401	1,158,660	432,312
Cash used in operations	(12,727)	(445,852)	(76,640)	(460,642)

**Notes (continued)**

**33 Leases**

**(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.

	<b>Group and Company</b>	
	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Movement of lease liabilities:</b>		
At start of year	43,861	58,986
Interest expense on lease liability (Note 12)	3,315	5,641
Interest paid	(3,315)	(5,641)
Payments of the lease liability	(8,702)	(15,125)
	<hr/>	<hr/>
At end of year	35,159	43,861
	<hr/>	<hr/>
<b>Maturity analysis of the lease liabilities:</b>		
Current lease liabilities	24,875	24,246
Non-current lease liabilities	10,284	19,615
	<hr/>	<hr/>
	35,159	43,861
	<hr/>	<hr/>

**(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.

	<b>Group and Company</b>	
	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Movement of lease assets:</b>		
At start of year	35,868	53,751
Additions	-	-
Depreciation charge	(17,257)	(17,883)
	<hr/>	<hr/>
Lease prepayments amortised on a straight-line basis (Note 17)	18,611	35,868
	4,875	4,875
	<hr/>	<hr/>
At end of year	23,486	40,743
	<hr/>	<hr/>

## Notes (continued)

### 34 Related party transactions

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

Shareholder	Group and Company	
	2023	2022
Bamburi Cement Limited	12.5%	12.5%
Cementia Holdings	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%
	100%	100%

The Government of Kenya, through combined shareholding of National Social Security Fund and The National Treasury, is the controlling party. 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

#### (i) Sale of goods and services

There were no sale of goods and services made during the year with related parties (2022: Shs 25,470,000).

#### (ii) Purchase of goods and services

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
National Social Security Fund	6,669	2,514	6,669	2,514
National Health Insurance Fund	8,574	9,450	8,574	9,450
Kenya Revenue Authority	162,986	245,486	162,986	245,486
The National Treasury	-	-	-	-
	178,229	257,450	178,229	257,450

The transactions with National Social Security Fund, National Health Insurance Fund and Kenya Revenue Authority relate to statutory deductions such as pension, health insurance and pay as you earn (PAYE).

The transaction with The National Treasury relates to interest charged on government loan as described under note 26.

#### (iii) Due from related parties:

Current				
Kenya Railways Corporation	231,611	563,486	231,611	563,486
Kenya National Highway Authority	124,822	124,822	124,822	124,822
	356,433	688,308	356,433	688,308

**Notes (continued)**

**34 Related party transactions (continued)**

**(iii) Due from related parties (continued)**

The balance due from Kenya Railways Corporation relates to sale of 900 Acres of LR 10424 in the year ended 30 June 2019.

The balance due from Kenya National Highway Authority relates to compensation awards on compulsory acquisition during construction of the dual carriage highway along Mombasa Road.

**(iv) Due to related parties**

	Group		Company	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
Kenya Revenue Authority (Note 28)	1,993,179	2,115,454	1,993,179	2,115,454
The National Treasury (Note 26)	1,942,945	1,942,945	1,942,945	1,942,945
	<u>3,936,124</u>	<u>4,058,399</u>	<u>3,936,124</u>	<u>4,058,399</u>

**(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		Company	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other short-term employee benefits	52,320	47,539	52,320	47,539
Post-employment benefits	16,219	14,306	16,219	14,306
	<u>68,539</u>	<u>61,845</u>	<u>68,539</u>	<u>61,845</u>

**(vi) Directors' remuneration**

Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments	18,137	15,933	18,137	15,933
	<u>19,237</u>	<u>17,033</u>	<u>19,237</u>	<u>17,033</u>

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