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East African Portland
Cement PLC

Holding Life Together

ANNUAL REPORT AND FINANCIAL STATEMENTS

2018/2019

DRIVING THE TRANSFORMATIVE AGENDA
THROUGH MANUFACTURING

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Corporate History

Our Corporate history and significant milestones

The East African Portland Cement Plc started as a trading company importing cement mainly from England for early construction work in East Africa. It was formed by Blue Circle Industries United Kingdom. The name Portland was given due to the resemblance in colour of set cement to the Portland stone that was mined on the Isle of Portland in Dorset, England.

It was not until February 1933 that the Company was incorporated in Kenya with the first factory in Nairobi's Industrial Area. The Company had one cement mill (Mill No. 2) and used to import clinker from India. The production capacity was about 60,000 tonnes of cement.

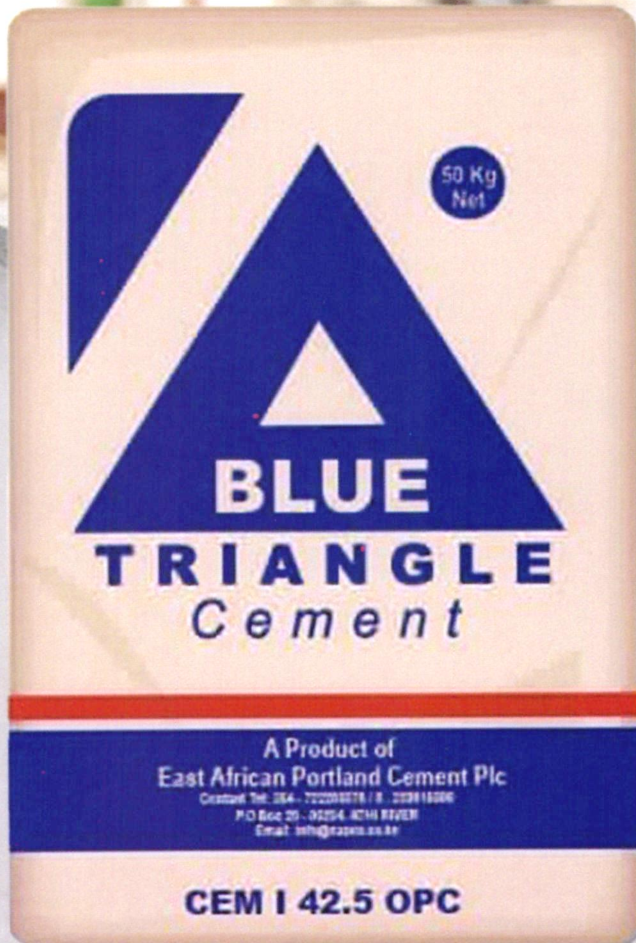
In December 1956, construction of the Athi River facility started. The factory was commissioned in 1958 and consisted of a Rotary Kiln (Wet), cement mills (Cement Mill 1 & 3) which significantly increased production capacity to 120,000 tonnes per annum.

In the last few years, EAPC Plc has greatly expanded its production capacity. With the introduction of Mill No. 5 and the embrace of Coal energy, the Company can presently produce over 1.3 million tonnes of cement per annum at reduced cost.

The Company now has fully automated business processes which means complex paperwork is now largely a thing of the past; from the offices of top management to the Factory floor. With these and other innovations, EAPC Plc is ready for the future today.

Historical Milestones

Year	Milestone
1933	EAPC Plc registered. The first cement manufacturer in East and Central Africa. Capacity of 60, 000 tonnes per year with one mill.
1934	Cement deliveries begin
1956	Athi River Factory construction begins
1957	Athi River Factory complete. Two mills added to bring total mills to four. Capacity doubles to 120, 000 tonnes a year.
1974	A new rotary wet kiln commissioned. Capacity rises to 300, 000 tonnes a year.
1979	Fourth mill added. Mill number three upgraded. Capacity rises to 340,000 tonnes a year.
1996	Brand new kiln commisioned. New Mill added. Bigger limestone crusher added. State-of -the-art pre-blending system added. Capacity doubles to 600, 000 tonnes a year.
1997	Company changes cement manufacturing process from wet process to dry process.
2007	Company conducts groundbreaking for new mill
2009	New mill commissioned. Capacity doubles to 1.3 Million tonnes. EAPC Plc acquires ISO 9001: 2008 certification.
2010	EAPC Plc implements ERP system which automates all business processes.
2011	EAPC Plc receives recognition from Computer Society of Kenya for Best ERP system implementation
2012	Kenya Bureau of Standards renews EAPC Plc ISO re-certification after bi-annual surveillance audit of business processes and procedures over a period of three years
2016	ISO 9001:2015 and 14001:2015 certification.



BLUE TRIANGLE CEM I 42.5 OPC

Ordinary Portland cement

High Strength Concrete

Structures above four Storeys

Bridges, railways slubs and Dams

Concrete Beams, Slabs and Foundations

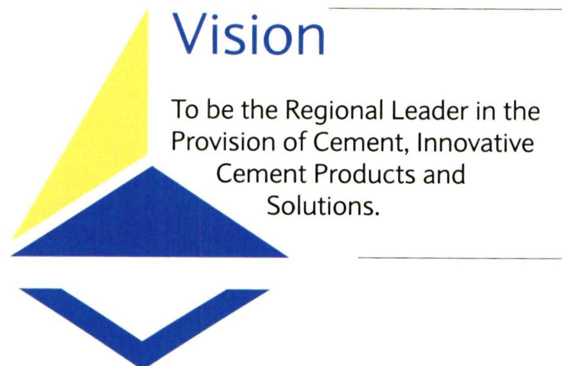
East African Portland Cement PLC

Holding Life Together

Mission, Vision and Core Values

Mission

To Provide Cement for Infrastructural Solutions to the Satisfaction of our Stakeholders.



Vision

To be the Regional Leader in the Provision of Cement, Innovative Cement Products and Solutions.

Core Values

Teamwork: We promote respect, unity and commonness of purpose amongst staff. We also promote and encourage exchange of ideas and openness.

Integrity: We embrace a culture that promotes honesty, transparency, accountability and professional ethics.

Customer Focus: We are dedicated to meeting customer expectations.

Timeliness: We promote timely delivery of high quality products.

Innovativeness: We encourage creativity, embrace positive change and reward innovation.

Commitment: We ensure peak performance, enthusiasm and excitement for work.

Safety: We ensure that we operate in a healthy and safe working environment conducive for efficient productivity.

Five Year Financial Review

	2019	2018	2017	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Turnover	2,847,273	5,182,721	6,928,307	8,871,456	8,417,621
Operating Loss	(2,062,381)	(3,479,298)	(1,316,283)	(1,584,571)	(577,579)
Foreign currency exchange gain/ (loss)	22,216	21,233	134,018	(305,706)	174,834
Profit / (loss) before tax	(2,961,898)	6,962,123	(1,712,903)	3,734,752	7,342,071
Taxation credit /(charge)	(399,990)	811,541	241,542	411,003	(185,001)
Profit /(loss) attributable to members	(3,288,772)	7,917,767	(1,471,361)	4,145,755	7,157,070
Dividends		-	-	-	-
Capital Employed					
Assets					
Non current	32,922,661	35,617,915	25,408,293	25,727,272	19,955,246
Current	3,618,444	1,985,639	1,949,095	2,114,848	3,157,336
Total assets	**36,541,105**	**37,603,554**	**27,357,388**	**27,842,120**	**23,112,582**
Equity & Liabilities					
Share holders funds	21,519,978	24,808,750	16,890,983	17,946,760	13,809,593
Non current liabilities	1,232,026	4,672,772	4,270,192	4,933,240	5,537,618
Current liabilities	13,789,101	8,122,032	6,196,213	4,962,120	3,765,371
Total Equity & Liabilities	**36,541,105**	**37,603,554**	**27,357,388**	**27,842,120**	**23,112,582**
Ratio Analysis					
Profitability and Efficiency Ratios					
Gross profit margin	-42%	2%	11%	18%	22%
Operating loss margin	-72%	-69%	-19%	-18%	-7%
Net profit margin	-116%	150%	-21%	47%	85%
Return on assets	-9%	21%	-5%	15%	31%
Return on Equity	-15%	32%	-9%	23%	52%
Liquidity Ratios /Working capital					
Current ratio	0.26	0.25	0.31	0.43	0.84
Quick ratio	0.18	0.09	0.11	0.15	0.35
Earnings per Share (Basic and diluted)	(36.54)	86.64	-16.35	46.06	79.52

DIRECTORS	Edwin Muriithi Kinyua, MBS	Chairman
	Simon Peter Ole Nkeri	Managing Director – retired on 4 August 2019
	Kung'u Gatabaki	
	Prof. Sarone Ole Sena	
	Hon. Amb. Ukur Yatani, EGH	Cabinet Secretary, National Treasury (Alternate Director – Edward Wamweya)
	National Social Security Fund (NSSF)	(Represented by Dr. Anthony Omerikwa)
	Dr. Francis Otieno Owino	Principal Secretary, State Department for Industrialization, Ministry of Industry, Trade and Cooperatives(Alternate Director – Charles W. Mahinda)
SECRETARY	Sheila Kahuki Certified Public Secretary (Kenya) P. O. Box 40101 - 00100 Nairobi	
REGISTERED OFFICE	L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 – 00100 Nairobi	
REGISTRARS	Haki Registrars P. O. Box 40868 – 00100 Nairobi	
BANKERS	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 6th Street Industrial Area P. O. Box 28568 Kampala
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P. O. Box 30084 - 00100 Nairobi	
DELEGATED AUDITOR	PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/ Chiromo Road, Westlands P O Box 43963 – 00100, Nairobi	

Governance and Accountability

Board of Directors
Senior Management
Sustainability Report
Corporate Governance Report

Edwin M. Kinyua, MBS
Chairman of the Board

Mr. Edwin M. Kinyua, MBS was appointed as the Chairman and Director of EAPC PLC with effect from 20th September, 2018. Mr. Kinyua has over 20 years' experience in Senior Management and Leadership positions in Kenya and in the Region. He served as the Managing Director/Chief Executive Officer of Kenya Wine Agencies Limited (KWAL) for 7 years from 2009 to 2016. During his term KWAL was in 2012 rated as the best State Corporation under the Performance Contracting system in Government. The Company also made tremendous achievements under his Leadership including increasing revenue by more than 2 ½ times to Ksh 4.4bn and profitability by more than double.

At a very difficult moment for KWAL, he successfully negotiated from 2010 to December 2014, to ensure KWAL remained strong by bringing on board as shareholder, Distell Limited of South Africa which had been the anchor supplier since 1998. The negotiations and other deliberations were held in South Africa, the Privatization Commission, Nairobi, the National Treasury, Cabinet Committee on Public Finance and Administration, the Presidency and defended in Parliament.

In 2012, he was honored by the Head of State with the award of the Moran of the Order of the Burning Spear (MBS) for dedicated service to the Nation. Mr. Kinyua has also demonstrated excellent leadership and Management skills through other positions that he held previously. Before joining KWAL, he worked at KenolKobil Group for over 17 years up to 2008.

He held amongst other positions; Head of Retail Network, Group Business Development Manager, rising to the position of Country Director-Uganda and later as Head of Group Corporate Division for East and Central Africa. During his time at KenolKobil, the Group's annual turnover was in the excess of USD 2.5 billion. He was in the Group Management Team that catapulted the Company to become the biggest Oil Company in East Africa by Year 2000.

Mr. Kinyua is a graduate of Bachelor of Commerce-Business Administration from the University of Nairobi. In 1997 he worked at Paz Oil and Sonol Petroleum in Tel Aviv, Israel under an African leadership and exchange programme and in 1998 won a scholarship to study Local Economic Development and Project planning at The Development Study Centre, Rehovot - Israel. He is trained in Corporate Governance under the Centre for Corporate Governance. He is also an entrepreneur in diverse sectors of the Kenyan economy, a Strategy and Management consultant and currently serves as a Director of Brett Communications Ltd and Akens Capital Ltd.

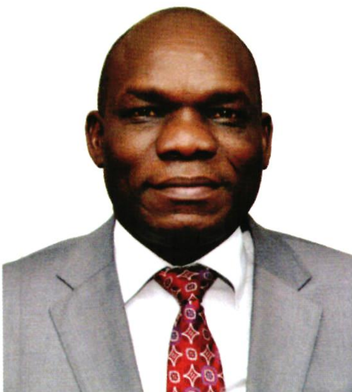
Prof. Sarone Ole Sena
Professor of Strategic
Management and Leadership

Prof. Sarone Ole Sena is a Professor of Strategic Management and Leadership at ESAMI. He holds a PhD in Business Education and Community Development. He has worked as a Business Consultant for 20 years and is currently a Director of EAPC PLC, Chairman of the staff pension scheme as well as Chairman of the Board HR and Remuneration Committee.

CS Hon. Amb. Ukur Yatani, EGH
Cabinet Secretary,
The National Treasury

Hon. Amb. Ukur Yatani Kanacho has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests.

He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others. Between 1992—2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.



Dr Francis O.Owino, PhD, CBS
Principal Secretary, State
Department for Industrialization,
Ministry of Industry, Trade and
Cooperatives.

Dr. Francis is the Principal Secretary, State Department for Industrialization, Ministry of Industry, Trade and Cooperatives. He holds a Doctor of Philosophy [PhD] in Peace and Conflict Studies from Masinde Muliro University of Science and Technology obtained in 2013, Master of Business Administration [Strategic Management] from Kenya Methodist University, 2008, Bachelor of Arts [B.A] 2nd Class Upper Division, University of Nairobi, 1989.

Some of his previous assignments include; Director, National Cohesion and Values with effect from 8th September 2009 to 14th August 2018 during which he successfully steered the formulation of policies on National Cohesion and National Values as enshrined in the Constitution of Kenya.

Previously, Dr. Owino served as Principal Secretary State Department for Public Service in the Ministry of Public Service and Gender.

Dr. Anthony Omerikwa
Managing Trustee/CEO
National Social Security Fund

Dr. Omerikwa is the Managing Trustee/CEO of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement.

He holds a Doctoral degree of the University of Georgia, a specialist advanced degree in Workforce Development from Pittsburgh State University, Masters of Science degree in Human Resource Development from Pittsburgh State University, a Bachelor of Arts degree in Economics and a diploma in IT of the Institute for the Management of Information Systems (UK). Dr. Omerikwa is a member of the Institute of Human Resource Management, Institute of Directors and the Kenya Institute of Management.

Kung'u Gatabaki
Director

Mr Kung'u Gatabaki holds an honors degree in Economics from Legon University Ghana and post graduate Diploma in Project Management and Finance from Bradford University UK. A long experienced Corporate Director over 40 years Mr Gatabaki has chaired various Boards of Directors in Kenya and Africa including Housing Finance Group; Micro Africa, Jacaranda Hotels and Kenya Capital Markets Authority.

His other past directorships include: The Pan African Mortgage Institution Shelter Afrique African Reinsurance Corporation (SA), Sudan Rural Development Company, Tanzania Development Finance Co, Mumias Sugar Co; Kenya Safari Lodges and Hotels, Serena Hotels Group, Kenya Tea Development Authority, Sony Sugar Company and Development Bank of Kenya. Mr Gatabaki is currently a director of Grain Bulk Handlers in Kenya and Chairman of Letshego Kenya and Rwanda (both owned by the Pan African Letshego Holdings listed on Botswana Securities Exchange and operating in ten countries in Africa. Mr Gatabaki worked for 30 years with the Commonwealth Development Corporation and Actis.

Stephen Nthei
Ag. Managing Director.

Mr. Stephen Nthei has served as the Acting Managing Director of East African Portland Cement PLC since 4th February 2019. Prior to this appointment, he was the Head of Financial Management and previously, the Head of Internal Audit and Risk Management. His other corporate experience includes stints at Ernst & Young, Central Bank of Kenya, Consolidated Bank of Kenya, Kenya Petroleum Refineries Limited among others.

He holds an EMBA from the Management University of Africa, Bachelor of Commerce – Accounting degree from Kenyatta University and an Advanced Management Programme from Strathmore Business School. He is also a Certified Public Accountant in good standing within the Institute of Certified Public Accountants of Kenya (ICPAK).

Sheila Kahuki
Company Secretary

Sheila Kahuki is the Secretary to the Board of Directors and the Company's Legal Services Manager. She holds a Bachelor of Law Degree (LL. BHons) from the University of Nairobi and a post graduate diploma in Law from the Kenya School of Law. She is an advocate of the High Court of Kenya and a Certified Public Secretary.

Senior Management Team

Senior Management Team

Stephen Nthei
Ag. Managing Director

Mr. Stephen Nthei has served as the Acting Managing Director of East African Portland Cement PLC since 4th February 2019. Prior to this appointment, he was the Head of Financial Management and previously, the Head of Internal Audit and Risk Management. His other corporate experience includes stints at Ernst & Young, Central Bank of Kenya, Consolidated Bank of Kenya, Kenya Petroleum Refineries Limited among others.

He holds an EMBA from the Management University of Africa, Bachelor of Commerce – Accounting degree from Kenyatta University and an Advanced Management Programme from Strathmore Business School. He is also a Certified Public Accountant in good standing within the Institute of Certified Public Accountants of Kenya (ICPAK).

Sylvester Owaga
Head of Commercial

Sylvester Owaga holds a Master's Degree from University of Nairobi and is a Member of Marketing Society of Kenya. He is an experienced business leader with over 10 years' history of working in the Fast Moving Consumer Goods segment as well as the Manufacturing industry.

He has a wealth of experience in Distribution, Building Brands, Go to market strategies, Sales Operations & Market Planning.

Stanley Irungu
Head of Plant Operation

Stanley Irungu, a graduate engineer registered with Engineers Registration Board (ERB), joined East African Portland Cement PLC in January 2012 as a Process Engineer.

He holds a Master of Science in Industrial Engineering and Management from Dedan Kimathi University of Technology, Bachelor of Technology in Chemical and Process Engineering from Moi University. He has attended various professional trainings including, Lafarge approved cement professional courses, Mill Audit, Gas Handling, Pyro-processing, Introduction to Quality and Cement products, Safety lead auditors training, among others.

He has over 12 years' experience having worked for established Companies including Bamburi Cement Company, Hima Cement Company, Kenya Wine Agencies Limited, Kel Chemicals Limited before joining East African Portland Cement PLC.

Joel Kipkemoi Kemei
Head of Human Resources & Administration

Joel is a Human Resources Management Professional and Practitioner with over 20 years' experience of cross functional Human Resource Planning and Resourcing, Organizational Design And Development, Reward and Human Capital Development and Employee Relations & Administration cutting across manufacturing, energy and education sectors.

He holds a Master's in Business Administration, Human Resources Management Option from Kenyatta University, Post Graduate Diploma in Human Resources Management, Bachelor's Degree in Education (Arts) and a full member of IHRM (K), Certified HR Practitioner and a student of Human Resource Management Professional Board.

Mohammed O. Adan
Ag. Head of Finance & Strategy

Mohammed holds a 1st Class Hon. in BA Economics from Moi University, Masters in Economics from the University of Nairobi and is a PHD Economics candidate. He has cumulative ten (10) years of experience in Finance & Accounting and is a member of ICPAK and ICIFA in good standing.

Moses Sudi Otoa
Ag. Head of Supply Chain

Moses Sudi is a Supply Chain professional, he joined EAPC Plc in March 2020, He holds a BCOM- Administration from The University of Nairobi, BCOM-Administration (Supply Chain option) from KEMU, Post graduate Diploma in purchasing and supplies from the chartered Institute of Purchasing and Supplies UK (MCIPS), National Diploma in Business Management from (Kenya institute of Management), Diploma in Clearing and Forwarding and Currently Finalized a Masters of Arts in Project Planning and Management from the University of Nairobi.

He is a member of Kenya institute of Supply Management (MKISM) and The chartered Institute of Purchasing and Supplies (MCIPS). He has particular expertise in Supply Chain Transformation/ driving sustainable value through smart spend management, enabling Innovation and building quality partnership (internally &external) across the value chain.

Prior to his role at EAPC PLC, he held senior management roles at Innovation Edge Ltd, Kenya Wine Agencies Ltd, Nzioa Sugar Company, Kenya Tea Development Agencies, Lewa Wildlife and Hilton Hotel Group.

Daniel K Kiprono
Internal Audit Manager

Daniel is the Manager Internal Audit, a position he has held since 2017. He joined East African Portland Plc in 2000 and has held various positions within the company including Credit Controller, Financial Accountant, Senior Internal Auditor among others.

Previously, Daniel worked for National Irrigation Authority (formerly National Irrigation Board), which he joined in 1993. He worked for the company for seven (7) years where he held various positions before joining East African Portland Cement Plc.

Daniel is a member of the Institute of Certified Public Accountants of Kenya. He holds a Bachelor of Commerce Degree and a Masters of Business Administration both from the University of Nairobi.

Kennedy Oliver Mwenda
Corporate Affairs Manager

Kennedy Oliver Mwenda, a veteran Journalist and Media executive, joined the East African Portland Cement in May 2020. He holds an MA in Communication studies from The University of Nairobi, A Bachelor of Arts degree in Journalism and Mass Communication, A Bachelor of Laws (LL.B) Degree from the University of Nairobi and is currently pursuing a Postgraduate diploma in Law from the Kenya School of Law.

He has attended various professional management and corporate governance capacity building courses. He is a member of the Public Relations society of Kenya. He has particular expertise in Strategic Communications, PR, CSR, Customer Analytics and Digital Marketing.

Oliver has cumulative career experience spanning over 12 years; prior to his role at EAPC, he executed senior management roles at The Commission on Revenue Allocation, Narok County Government , The Judiciary ; Office of the Chief Justice, Uwezo Fund, Oshwal Education and Relief Board and a journalist at Radio Africa Group.

Roseline Ominde
Ag. Legal Services Manager

Roseline is the Ag. Legal Services Manager. She holds a Bachelor of Law Degree (LL.B Hons) from the University of Nairobi and a Post graduate Diploma in Law from Kenya School of Law (KSL). She is currently pursuing her Certified Public Secretaries Course with KASNEB. She is an Advocate of the High Court of Kenya and a Commissioner of Oaths.

Edwin M. Kinyua, MBS
Chairman of the Board

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended June 30, 2019.

Economic Outlook

The Country registered 6.3% growth in GDP in 2018 and is projected to close at 5.7% in 2019. This is more than double the average growth rate in Sub-Sahara Africa. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities on the backdrop of reduced political risk occasioned by the 'Handshake'. Agricultural activities benefitted from enough rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favourable to growth during the review period.

Cement Market and Competition

In spite of the economic growth, the construction sector growth declined to 6.3% in 2018 from a revised growth of 8.5% recorded in 2017 and is expected to remain stable in 2019. The constriction in the construction sector led to heightened competition in the cement industry as firms jostled to avoid idle capacity. Cheap imports, particularly from energy subsidized economies, will also be a source of price pressure in the market. Regionally, increased production capacity in Uganda has led to notable decrease in exports from Kenya.

Performance

The business was constrained by increased competition driven by importation of cheap clinker, high energy cost and energy inefficiency on account of aged plant and lack of working capital to procure requisite raw materials and critical engineering spares. Consequently, net revenue reduced by 45% over prior year. These challenges notwithstanding, the company embarked on a plant refurbishment between the months of May and June 2019, which is expected to increase clinker manufacturing output in the short term. Whereas, enhancing the Company revenue base is a priority, the business will invest in administrative cost restructuring balance sheet restructuring to make the business more competitive in the market.

Dividend

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

Our Focus

The Board remains committed in its endeavour to turn around the fortunes of the Company by leveraging on its ownership structure and strong balance sheet through;

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

Corporate Strategy

The Company has formulated a turnaround plan to cover the period 2018/19 to 2023/24 with the aim of optimizing production efficiency, lowering fixed and operational costs, unlocking working capital and ultimately increasing all stakeholders value leveraging on its strong

balance sheet. This plan is predicated upon sale of fully mined idle land in order to achieve key strategic initiatives listed below:

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

The Company commenced the process of reducing the high fixed staff costs through non- renewal of contracts with effect from June 2018. A general notice on intended company restructuring and staff rationalization was also issued, and the organization has retained legal consultants to handle the process which will be implemented progressively and will result in further reductions in overhead costs and improved staff productivity in the next financial year.

Significant progress has since been made with sale of 900 acres of land to Kenya Railways Corporation already underway, with an accelerated payment plan negotiated to support key turnaround initiatives. The company is also at the tail end of negotiating critical terms of a settlement agreement to allow for disposal of one of the properties bearing a legal charge as security against facilities advanced by Kenya Commercial Bank. The property was valued at Kshs. 5.6 billion and is enough to cover the outstanding debt of Kshs. 5.4 billion which includes bank overdraft, term loans, post import finance, insurance premium financing, letters of credit and guarantees. Approvals have been obtained from the Government and was approved by shareholder during an Extraordinary General Meeting held on 27th September 2019

Financing Strategy

Implementation of the Company's strategic plans depends on the availability of financing from the disposal of its idle assets. Timely approvals from the government are critical in the disposal processes and the Company has made progress in securing approvals from the Government towards that end. The funds generated will go a long way in reposition the company for future success.

Corporate Governance

The company continues to believe in the importance of good governance. The Board has in place a charter which contributes in guiding the interaction between the Board and other stakeholders. The business code of ethics emphasizes the need for each employee to fully understand corporate behaviour expectations, compliance with work ethics and regulatory expectations. We will continue to identify with and share best practice across the entire company structure.

Energy

Cement production is energy intensive. Energy costs in East Africa account for up to 50 percent of total production costs while in countries like Egypt, India, Pakistan and China production costs are inherently lower owing to government subsidy programs such as cost of power production and fuel inputs. This makes East African region a lucrative market for clinker imports. During the financial year under review, the Kenya shilling remained relatively stable against the US dollar which ensured that the variable component of cost of electricity remained relatively stable. However, the overall energy costs compares very unfavourably to cement producing economies in Northern Africa that enjoy significant energy subsidies. Energy inefficacies emanating from deteriorating plant positions are expected to reverse following the May and June 2019 shutdown.

The Board

As I acknowledge the invaluable contribution made by the members of the Board of Directors during the past year, we wish to bring to the attention of our stakeholders the changes that occurred within the year. We would like to sincerely thank Simon Peter Ole Nkeri for his steadfast leadership as Managing Director who proceeded on terminal leave in February 2019 and exited in August 2019. We wish him well in his future endeavours. Consequently, Mr Stephen Nthei has been holding brief since then as Acting Managing Director. We look forward to his contribution in the foreseeable future.

Appreciation

On behalf of the Board of Directors, I would like to extend my sincere gratitude to you shareholders for the support you have continued to provide to your Company. I would also like to recognise the contribution of the Board for their foresight and dedication to the Company; and to the Management for their unrelenting commitment to implementation of the turnaround plans. Lastly, I would like to extend my gratitude to all our business partners and customers for their loyalty and unwavering support.

Edwin M. Kinyua, MBS
Chairman, EAPC PLC

Stephen Nthei
Ag. Managing Director

Business Overview

This year marks commencement of tangible turnaround initiatives the Company has put in place in the peak of sustainability-related challenges that have threatened the going concern of the Company in the past years. The reporting period was characterized with a myriad of both operating and industry-based challenges that not only impacted negatively on sales revenues but also on cost of sales and overall productivity of the Company. I am confident that these challenges are surmountable. The Board of Directors and Management have narrowed down on high impact strategies to mitigate the impacts of these challenges and return the Company to a modest path of profitability. Inadequate working capital, deteriorated plant health, declined market share and lack of enhanced bargaining power for both suppliers and customers were the key challenges.

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

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

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

Business Performance

Overall, the Company realized a decline in production of 45% owing to increased downtime of the plant occasioned

by inadequate working capital that inhibited timely procurement of requisite raw materials, plant refurbishment and maintenance that also impacted on sustaining the required plant efficiencies. These challenges, combined with downward pressure on retail prices due to supply glut, weighed down on sales revenues which declined by a similar margin. Cost of sales reduced by 23% over the same period last year on account of the reduced volumes, though the gross margins were adversely impacted by deteriorated operating efficiencies, significant of them being energy, which deteriorated by 30% as a result of delayed procurement of critical spares to ensure optimum plant maintenance.

Consequently, these factors led to widening of the gross loss position to 1.2 billion in the year compared to 90 million in the prior year. General operating expenses for the Group and the Company reduced by 33% and 39% respectively in tandem with decreased productivity while fixed costs were contained through staff costs rationalization. The decrease was also driven by absence of a one-off provision arising from Employment and Labour Relations Court Award done in the prior year.

The Company reported a loss before tax of Kshs 2.9 billion in the year compared to a profit of Kshs 6.7 billion in the previous year, on account of a gain on revaluation of investment property amounting to Kshs 11.3 billion. The gain in the prior year arose from the revaluation of three properties in Athi River and One property in Kikambala that are classified as investment property as required by the International Accounting Standards. There was no revaluation gain in the current year.

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

Staff Rationalization Program

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

Corporate Strategy

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

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

Customer Value Proposition

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

Risk Management

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

The Company's overall risk management program focuses on effective mitigation of the various risks and seeks to

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

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

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

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

Corporate Social Responsibility

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

Safety, Health, and Environment

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

Outlook

The company will leverage its ownership structure to partner with the National Government in securing to deliver its promise of affordable housing and infrastructure to Kenyans. This is expected to offer a niche market to the company which will be pivotal to its pursuit to recapture its market share. This coupled with the cost rationalization program and optimization of plant operations is expected to make the business return to profitability. It is expected that the balance sheet restructuring shall be completed in the financial year 2019/20 and that this shall reposition the Company to competitively deliver its mandate to shareholders and other stakeholders. Major emphasis shall continue to be placed on cost rationalization and efficient use of plant and working capital resources.

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

Thank you.

Stephen Kyalo Nthei
Ag. Managing Director

Committee Members of Nkama Bursary Fund in Kibini pose for a photo with Ag. Managing Director Stephen Nthei after a bursary handover exercise

Make A Difference Day (MADD) Champions with children from Bondeni Children Rescue Centre after donating assorted items sourced from EAPC PLC Colleagues to the Centre

Sustainability Report Financial Year 2018/19

East African Portland Cement PLC aims to conduct business in ways that result in social, environmental and economic benefits for the Communities where we operate in and for other Company Stakeholders. EAPC PLC works hard to better the quality of lives in our Communities. The Company holds regular meeting with the Community representatives through Liaison Officers who are deployed in these Communities to ensure that information about important needs is collected and communicated to the Company.

The Company also holds quarterly meetings with its employees to ensure that staff issues are not left out as well. During the reporting period, the following activities were undertaken as part of EAPC Plc's Corporate Social Investment;

Education

Bursaries and Scholarship

Education has consistently remained to be an indisputable fortunes changer in the society today. Many lives from poor and marginalized communities have been changed through education. In the same realization, EAPC Plc has continued to place support for education at the center of its CSR investments. During the period the company supported needy student in Kajiado County by disbursing bursaries to a tune of Kshs. 2 Million which benefited a lot of needy pupils and students.

Construction of Kibini Primary School Dormitory

Some time ago, many students from Kibini Day and Boarding Primary School were travelling long distances to get to school and by the time they got to class, most of them would be tired and therefore unable to concentrate in class. To curb this, the Company constructed a boys' dormitory in the school at a cost of Kshs. 4.2 Million This has ensured that the pupils can now concentrate more on their studies and the same has been reflected in the school's performance.

Donation of Sanitary Towels to School Girls

In order to retain girls in schools and have them motivated as well, the Company through partnerships with Colleagues and other stakeholders rolled out a sanitary towels supply programme to school going girls both in secondary and primary schools.

Provision of Water to school going Children.

Water Access to Communities

The Company continued to honor its obligation to provide water to communities within the Kibini hill area. The company runs 6 boreholes by providing fuel and paying electricity bills for those connected with power. We also under-took a few repairs and normal servicing on all boreholes during the period. This is a long term Company commitment that has seen many community members benefit from access to clean water for domestic and livestock use. During the reporting period, the Company sunk a borehole Bissil Area where Limestone is also mined. The Company has also continued to supply clean water to several Communities through the Company owned Water Bowser.

Health

To ensure the continued good health of the Company's employees as well as that of the members of the surrounding Communities, the Company runs three Dispensaries, A community one in Oleleshua, Bissil where Limestone is mined and two staff Clinics one at the factory in Athi River and the other one at Kibini Hill Quarry. Both Staff Clinics serve the surrounding Communities in emergency cases. Company resources in health like the Ambulances are also shared with the communities within us in cases of need. During the reporting period, the Kibini Hill Quarry Clinic was moved from the Quarry area to a more serene and private environment that is more spacious and provides the much needed confidentiality that is required in such a facility. It is fully equipped with a dressing room, a spacious waiting area as well as a stocked pharmacy.

The Company also conducted its Annual Medical Examination for all employees in the main factory, quarries and all depots. The purpose of the medical examination is to be able to detect any ailments that the employees might have and act on them in good time.

Environment

The Company continuously undertakes tree planting activities in schools and also donates tree seedling to the schools and other institutions to help protect the environment. In response, to the presidential directive to strive towards achieving the 10% tree cover that has been recommended by the United Nations, the Company has in several occasions partnered with other organizations to plant trees in different parts of the Country. In the same quest, the Company also invites Colleagues to come out and plant trees both within and out-side the Company premises. During the reporting period, Colleagues alone planted more than 1,500 seedlings. The Company also issues seedlings to Colleagues for them to plant in other places of their choice. Every Colleague is entitled to 5 seedlings in a year and in the reporting period, more than 3000 seedling were issued to Colleagues.

Children planting trees donated by EAPC PLC

Charitable Giving (Make A Difference Day)

Towards the middle of the reporting period, Colleagues under the guidance of Make A Difference Day (MADD) Champions organized a unique campaign to source for items like food, books and clothes to be donated to Bondeni Children Rescue Centre in Athi River. The Rescue Centre takes care of orphans, victims of defilement case as well as physically abused and abandoned children. It was founded in 2014 and caters for approximately 72 children from Athi River and its environs. The team donated foodstuffs, clothes, Mosquito nets, books and other assorted items on behalf of the whole EAPC PLC family. The children were also given motivational talks by the EAPC PLC team.

Employee Morale

Trainings

The Company believes in empowering its work-force and therefore the need for training. Training not only helps to improve the Colleagues' skills making them more productive, but also has an impact in their personal lives making them more motivated.

Teambuilding Activities

The Company has been in the forefront in advocating for teambuilding activities among Colleagues. This ensures that there exists good interpersonal relations among Colleagues a factor that greatly contributes to their output.

Long Service and Managing Director's Awards

During the reporting period, the Company hosted a spectacular award ceremony for the long serving colleagues as well as those who had excelled in their duties and got nominated MD's Award by their Colleagues. The event was graced by representatives from the Board of Directors including the Chairman. The annual event is geared towards employee appreciation and motivation. A total of 208 Employees were honored with various awards during the event.

Corporate Governance Statement

Introduction

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

Compliance statement

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

Responsibilities of the Board

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

The Composition of the Board is set out on page 8 - 10.

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

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

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

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

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

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

Director	Board Schedule	Board (special)	82 AGM
Chairman – Edwin Kinyua	4	18	1
Managing Director	4	7	1
CS Treasury or his alternate	4	14	1
PS Ministry of Industry, Trade & Co-operatives	4	11	1
NSSF	4	14	1
Kung'u Gatabaki	4	18	1
Professor Sarone ole Sena	4	8	1
Company Secretary	4	19	1

During the year twenty-three board meetings were held.

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

Delegation of Authority

Board Sub Committees

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

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

Details of these committees and membership are shown below.

Audit Committee

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

The members of the Committee are:

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

The Committee held four meetings during the year

Board Technical Committee

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

The members of the Committee are

PS Ministry of Industry, Trade & Co-operatives	Chairman
Dr. Anthony Omerikwa	Representing NSSF
Kung'u Gatabaki	
Managing Director	
S. Kahuki	Secretary

The Committee did not meet during the year

Board Human Resources & Remuneration Committee

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

The Members of the Committee are:

Prof. Sarone ole Sena	Chairman
Dr. Anthony Omerikwa	Representing NSSF
PS Ministry of Industry, Trade & Co-operatives	
Managing Director	
S Kahuki	Secretary

The Committee held four meetings during the year

Finance Committee

The Board constituted the Committee on 22 February 2019 in order to enhance supervision of the finance and financing activities of the Company. The Committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the Company. It also reviews the Company's financial performance against its goals and proposes major transactions and programs to the Board. The members of the Committee are:

Kung'u Gatabaki	Chairman
CS, Treasury	
PS Ministry of Industry, Trade & Co-operatives	
Dr. Anthony Omerikwa	Representing NSSF
Managing Director	
S Kahuki	Secretary

The Committee held two meetings during the year.

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

	Audit committee	Finance Committee	HR & Remuneration Committee
Edwin Kinyua	-	-	-
CS Treasury / Alternate	3	2	-
PS Ministry of Industry, Trade and Cooperative	1	2	3
NSSF	4	2	4
Managing Director	-	2	2
Kung'u Gatabaki	4	2	-
Prof. Sarone ole Sena	3	-	4
Company Secretary	4	2	4

Management Committee

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

The Committee meets at least once a week.

Directors' shareholding

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

Directors' remuneration and loans

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

Board Performance Evaluation

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

Going concern

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

Internal controls

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

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

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

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

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

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

Relations with shareholders

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

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

Skills and experience of the Board

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

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

Code of Conduct

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

Conflict of Interest

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

Appointments to the Board

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

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

Interaction with Management

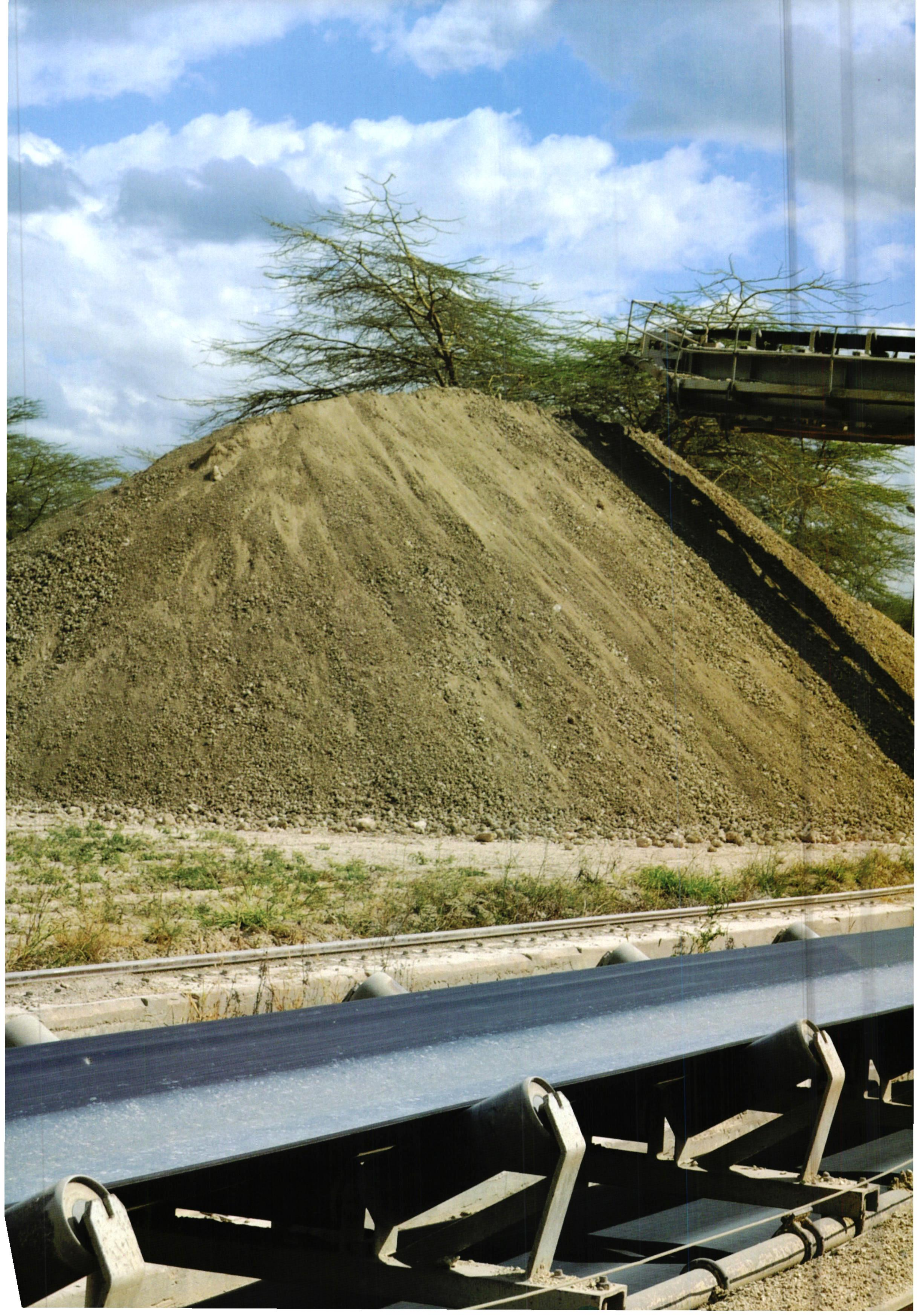
The EAPC Board has a high level of regular interaction with management thereby enabling directors to infuse their considerable experience, professional knowledge of the target market into the strategic direction. There is a policy of open communication between Board and Management and this ensures that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

During the year 2018/2019, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually.

Communication

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

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



Directors' Report

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 2019.

BUSINESS REVIEW

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

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

Financial Performance

Several factors throughout the year affected the performance of the business adversely. The Group gross loss margin of 42% down from 2% in 2018. The declining performance was attributed to working capital constraints, loss of market share to competitors and increase in prices of key inputs.

The Group reported a loss for the year of Shs 3.3 billion (2018: profit of Shs 7.9 billion). The decline was driven by insufficient working capital to support throughput leading to inadequate absorption of fixed costs. There were no gains in investment property in 2019 due to stabilization of the property values in relation to the properties in question after completion of the Standard Gauge Railway in the vicinity.

Risk Management

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

The Environment

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

Human Capital

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

	2018	2019
Permanent	448	436
Contract	488	337
Total	**936**	**773**

Corporate social responsibility

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

Outlook

Market outlook in terms of cement demand in the long run remains depressed with subdued demand emanating from preventive measures adopted by the Government of Kenya in response to the COVID – 19 pandemic. This is driven by a difficult operating environment occasioned by declining consumer purchasing power. The company is undertaking cost rationalization (staff and borrowing cost) to survive in the current buyers markets as well as partnering with the national government in its affordable housing and infrastructure agenda

Investment property

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

Key performance indicators

The table below highlights some of the key performance indicators;

	2019 Group		2018 Company	
Key performance ratios	Shs'000	Shs'000	Shs'000	Shs'000
Gross loss margin	42%	2%	43%	2%
Operating loss margin	72%	67%	71%	74%
Net (loss) profit margin	(118%)	152%	(117%)	147%
Return on assets	(9%)	21%	(9%)	20%
Return on equity	(16%)	32%	(15%)	32%

DIVIDENDS

The Group's and Company's loss after income tax for the year of Shs 3,361,888,000 (2018: profit of Shs 7,853,273,000) and Shs 3,327,605,000 (2018; profit of Shs 7,528,335,000) respectively has been applied/(added) to retained earnings. The directors do not recommend the payment of a dividend in respect of the current year (2018: Shs nil).

DIRECTORS

The present directors are shown on page 8-10.

DISCLOSURES TO AUDITOR

With respect to each director at the time of approval of this report:

(a) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and

(b) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

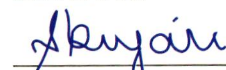
TERMS OF APPOINTMENT OF AUDITOR

The Auditor General is responsible for the statutory audit of the financial statements of East African Portland Cement Plc in accordance with Section 23 of the Public Audit Act, 2015 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf. PricewaterhouseCoopers LLP was nominated by the Auditor General to carry out the audit of East African Portland Cement for the year ended 30 June 2019.

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.

By order of the Board

SECRETARY



11th September, 2020

The Board of Directors congratulates the dedicated investors for the gallant support accorded to the Company in the just completed financial year. The business environment for the company was harder than previous years due to several factors, both internal and external. As a result, the group turnover dipped by 45% compared to previous year. Due to the challenges faced and the need to consistently design responsive mitigating actions, the Board of Directors undertook various activities on behalf of the Group which when implemented will lead to profitability in the foreseeable future.

The Director's remuneration policy at a glance

Executive Directors

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

Non-Executive Directors

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

Directors' shareholding

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

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

Directors Contract of service

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

	Directors CONTRACT OF SERVICE			
Director	Start of contract	End of Contract	Notice Period	Payable
Edwin Kinyua	21 September 2018	20 September 2021	-	-
Simon Peter Ole Nkeri	05 August 2016	Shareholders rep	6 Month	Six months in lieu
Kung'u Gatabaki	Shareholders rep	Shareholders rep	-	-
Prof. Sarone Ole Sena	Shareholders rep	Shareholders rep	-	-
Ambassador Ukur Yatani	Shareholders rep	Shareholders rep	-	-
National Social Security Fund	Shareholders rep	Shareholders rep	-	-
Betty Maina	Parent Ministry	Parent Ministry	-	-

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 a single figure remuneration for the executive directors, chairman and non-executive directors in respect of qualifying services for the year ended 30 June 2019 together with the comparative figures for 2018. The aggregate directors' emoluments for Group and Company are shown on below;

Year ended 30th June 2019

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Loss of Office/Termination	Estimated Value of Non cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Simon Peter Ole Nkeri	11,372	-	-	2,127	-	-	13,500
2	Edwin Kinyua	-	300	-	4,704	-	-	5,004
3	Kung'u Gatabaki	-	160	-	2,215	-	-	2,375
4	Dr. Anthony Omerikwa	-	160	-	729	-	-	889
5	Prof. Sarone Ole Sena	-	160	-	2,313	-	-	2,473
6	Betty Maina	-	160	-	471	-	-	631
7	Humphrey Muhu	-	160	-	1,762	-	-	1,922
8	Moses Cheseto	-	-	-	557	-	-	557
9	Charles Mahinda	-	-	-	1,050	-	-	1,050
	Totals	**11,372**	**1,100**	**-**	**15,929**	**-**	**-**	**28,401**

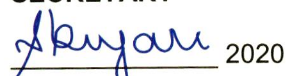
Year ended 30 June 2018

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Loss of Office/Termination	Estimated Value of Non cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Simon Peter Ole Nkeri	15,612	-	-	3,978	-	-	19,590
2	William Lay	-	300	-	737	-	-	1,037
3	Kung'u Gatabaki	-	160	-	886	-	-	1,046
4	Dr. Anthony Omerikwa	-	160	-	686	-	-	846
5	Prof. Sarone Ole Sena	-	160	-	1,597	-	-	1,757
6	Betty Maina	-	160	-	129	-	-	289
7	Humphrey Muhu	-	160	-	969	-	-	1,129
8	Charles Mahinda	-	-	-	726	-	-	726
9	Moses Cheseto	-	-	-	429	-	-	429
10	Patrick Mwangi Nduati	-	-	-	43	-	-	43
	Totals	**15,612**	**1,100**	**-**	**10,180**	**-**	**-**	**26,892**

The allowances and salaries for the executive directors is reflected in the statements under staff costs Note 33(iii).

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

SECRETARY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Statement of Directors' Responsibilities

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

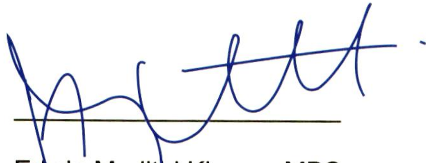
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

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

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

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

Approved by the board of directors on 11th September 2020 and signed on its behalf by:

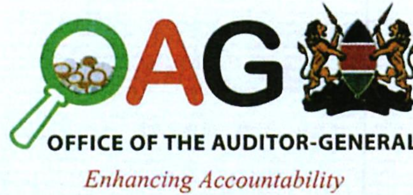


Edwin Muriithi Kinyua, MBS
Director

Kung'u Gatabaki
Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and the company financial statements of East African Portland Cement PLC (the Company) and its subsidiary (together with the Group) set out on pages 48 to 98, which comprise the consolidated and the Company's statement of financial position as at 30 June, 2019 and the consolidated and the Company 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, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East African Portland Cement PLC as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

I draw attention to Note 2(a) in the financial statements, which indicates that the Group and Company incurred a net loss from operations of Kshs.2,062,381,000 (2018: Kshs.3,479,298,000) and Kshs.2,028,098,000 (2018: Kshs.3,804,171,000) respectively

during the year ended 30 June, 2019. Further, the Group and Company's current liabilities exceeded the current assets by Kshs.10,170,657,000 (2018: Kshs.6,136,393,000) and Kshs.10,189,500,000 (2018: Kshs.6,208,657,000) respectively.

This movement was largely due to transfer of long-term loans to current liabilities on account of default on existing loan covenants. The Company defaulted on a loan from one of the key lenders, and subsequent to year end, obtained approval from shareholders to dispose some of the idle land to retire the debt.

Other factors that have affected performance have been explained in the Director's Report and Managing Director's Report. In particular, the plant continues to operate significantly below capacity due to working capital constraints, lack of essential spare parts and loss of market share to competitors. Due to the 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.

In addition, 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 Collective Bargaining Agreement (CBA) terms with an estimated total exposure of Kshs.1.7 billion, debt claims by suppliers for unpaid bills for services rendered and /or goods delivered totalling Kshs.411 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling to Kshs.173 million.

These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Key Audit Matter

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

Key Audit Matter	How our Audit addressed the Key Audit Matter
Fair Valuation of Investment Properties As disclosed in Note 15, the Group's and Company's investment properties consist of investment in land carried at fair value. The	I have performed the following audit procedures;

Directors have engaged an Independent Professional Valuer to determine the fair value as at 30 June, 2019. The valuer has determined the open market value using comparable property prices within the vicinity. Determination of fair value on investment properties involves significant judgement and assumptions. Judgement and assumption in the following areas were of most of significant importance to the audit. • Impact of informal settlers – a significant portion of the Group's investment properties are occupied by informal settlers. In arriving at the fair value of the investment properties, the Directors have deducted the estimated cost of evicting the informal settlers. Significant judgement was exercised by the Board of Directors in determining the cost of evicting the informal settlers and securing the land. • In arriving at the market value, the independent valuers considered sales of comparable properties in the vicinity of the Group's land. However, the properties considered are smaller than the Group's properties and may not be comparable. Assumptions have been made in adjusting sales values of the comparable properties to factor in the size of the Group's land.	• Assessed competency, capabilities and objectivity of the independent valuers. • Reviewed the terms of the engagement of valuers to ascertain there were no matters affecting their objectivity or imposed scope limitation that would have a significant impact on their work. • Assessed the appropriateness of the methodology used by the independent valuers and consistency with the International Financial Reporting Standards (IFRS). • Assessed the relevance and reasonableness of the independent findings or conclusions, and their consistency with other audit evidence obtained during the audit. • Ascertained that results of the expert's work in light of our knowledge of the business and industry. • Reviewed Management's estimate of eviction costs for reasonableness. • Reviewed the adequacy of the disclosures in Note 15 of the financial statements.

Other Matter

Loss in Sale of Land

In 2012, the Company entered in a consent to sell 337 acres of land to a local buyer at a price of Kshs.2.2 million per acre against the carrying value of Kshs.5.2 million per acre. However, the buyer defaulted on the provisions of the consent by not providing an acceptable bank security within the period of consent. The case was taken to court after which the parties settled at a renegotiated price of Kshs.4.5 million per acre on 3 May, 2019 leading to a loss of Kshs.233 million against the carrying value.

Directors have engaged an Independent Professional Valuer to determine the fair value as at 30 June, 2019. The valuer has determined the open market value using comparable property prices within the vicinity. Determination of fair value on investment properties involves significant judgement and assumptions. Judgement and assumption in the following areas were of most of significant importance to the audit. • Impact of informal settlers – a significant portion of the Group's investment properties are occupied by informal settlers. In arriving at the fair value of the investment properties, the Directors have deducted the estimated cost of evicting the informal settlers. Significant judgement was exercised by the Board of Directors in determining the cost of evicting the informal settlers and securing the land. • In arriving at the market value, the independent valuers considered sales of comparable properties in the vicinity of the Group's land. However, the properties considered are smaller than the Group's properties and may not be comparable. Assumptions have been made in adjusting sales values of the comparable properties to factor in the size of the Group's land.	• Assessed competency, capabilities and objectivity of the independent valuers. • Reviewed the terms of the engagement of valuers to ascertain there were no matters affecting their objectivity or imposed scope limitation that would have a significant impact on their work. • Assessed the appropriateness of the methodology used by the independent valuers and consistency with the International Financial Reporting Standards (IFRS). • Assessed the relevance and reasonableness of the independent findings or conclusions, and their consistency with other audit evidence obtained during the audit. • Ascertained that results of the expert's work in light of our knowledge of the business and industry. • Reviewed Management's estimate of eviction costs for reasonableness. • Reviewed the adequacy of the disclosures in Note 15 of the financial statements.

Other Matter

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Other Information

The Directors are responsible for the other information, which comprises the statement of corporate governance, Directors' 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 COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

Basis for Conclusion

Non-Compliance with Laws and Regulations

1. Tax Matters

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

Sections 3(2)(a)(ii), 5 and 37 of the Income Tax Act Cap 470 requires employers to deduct PAYE at source and remit the same to the tax authorities before the 9th day of the subsequent month of pay. However, as at 30 June, 2019, the Company had not remitted PAYE amounting to Kshs.376 million for the 12 months' period (1 July, 2018 to 30 June, 2019). Cumulatively, the Company holds a provision of Kshs.945 million of unremitted PAYE and Kshs.496 million being the penalties there on. The Company is in breach of law and is exposed to the consequences of non-compliance with the income tax law.

1.2 Non-Remittance of Value Added Tax (VAT)

Section 13(3) of Value Added Tax Act Cap 476 requires entities to remit VAT payable to tax authorities before the 20th day of the subsequent month of collection. However, as at 30 June, 2019, the Company had not remitted VAT balances totalling to Kshs.221 million in principal and penalties and interest of Kshs.63 million. The Company is in breach of law and is exposed to the consequences of non-compliance with the value added tax law. Further, and as disclosed in Note 30(1) to the financial statements, the Kenya Revenue Authority carried out an audit on the Company, covering corporate tax, employees' taxes, withholding tax and VAT for the period from 2005 to 2008. KRA raised an assessment of Kshs.25 billion out of which Kshs.1.7 billion has been resolved with the tax authorities. The Company has paid Kshs.122 million and appealed a further Kshs.473 million through the local tax committee which subsequently ruled in favor of the Company. KRA later

appealed in the High Court against the local committee ruling, but the matter is yet to be determined. Additional liabilities may arise from this matter.

2. Non-Remittance of Employees' Pension Contributions

Sections 53 and 53A of the Retirement Benefits Act, 1997 requires entities to timely remit contributions by the employee's, failure to which, the entities will be penalized. However, as at 30 June, 2019, the Company had accrued pensions of Kshs.91 million in principal, penalties and interest. These unremitted contributions date back to August, 2018. The Company is in breach of law and is exposed to the consequences of non-compliance with the retirement benefits law.

3. Non-Remittance of Mining Levies

Legal Notice No. 222 of the Mining Act (Cap 306) dated 18 December, 2013 requires cement producers to pay a cement mineral levy at the rate of Kshs.140 per ton of cement with effect from 1 January, 2014. As at 30 June, 2019, the Company had accruals of non-remitted mining levy amounting to Kshs.327 million. The Company is in breach of law and is exposed to the consequences of non-compliance with the mining regulations.

4. Non-Remittance of Unclaimed Dividends

Section 20 of the Unclaimed Financial Assets Act, 2011 requires entities to remit unclaimed assets, including but not limited to ownership interests (shares and dividends), with a period of abandonment of three (3) years. As at 30 June, 2019, the Company held in its books, accrued dividends payable amounting to Kshs.102 million. Part of this amount has been outstanding for more than three (3) years exposing the Company to increased penalties.

The Company was therefore in breach of Law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(i) In my opinion, the information given in the report of the Directors on pages 14 to 16 is consistent with the financial statements.

(ii) In my opinion, the auditable part of the Directors' remuneration report on pages 17 to 18 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Directors and those Charged with Governance

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

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

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

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

Those charged with governance are responsible for overseeing the group's and the subsidiary's financial reporting process, reviewing the effectiveness of Management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and

responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Company's internal control.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities within the group to express an opinion on the consolidated and Company financial statements.

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

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

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

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless

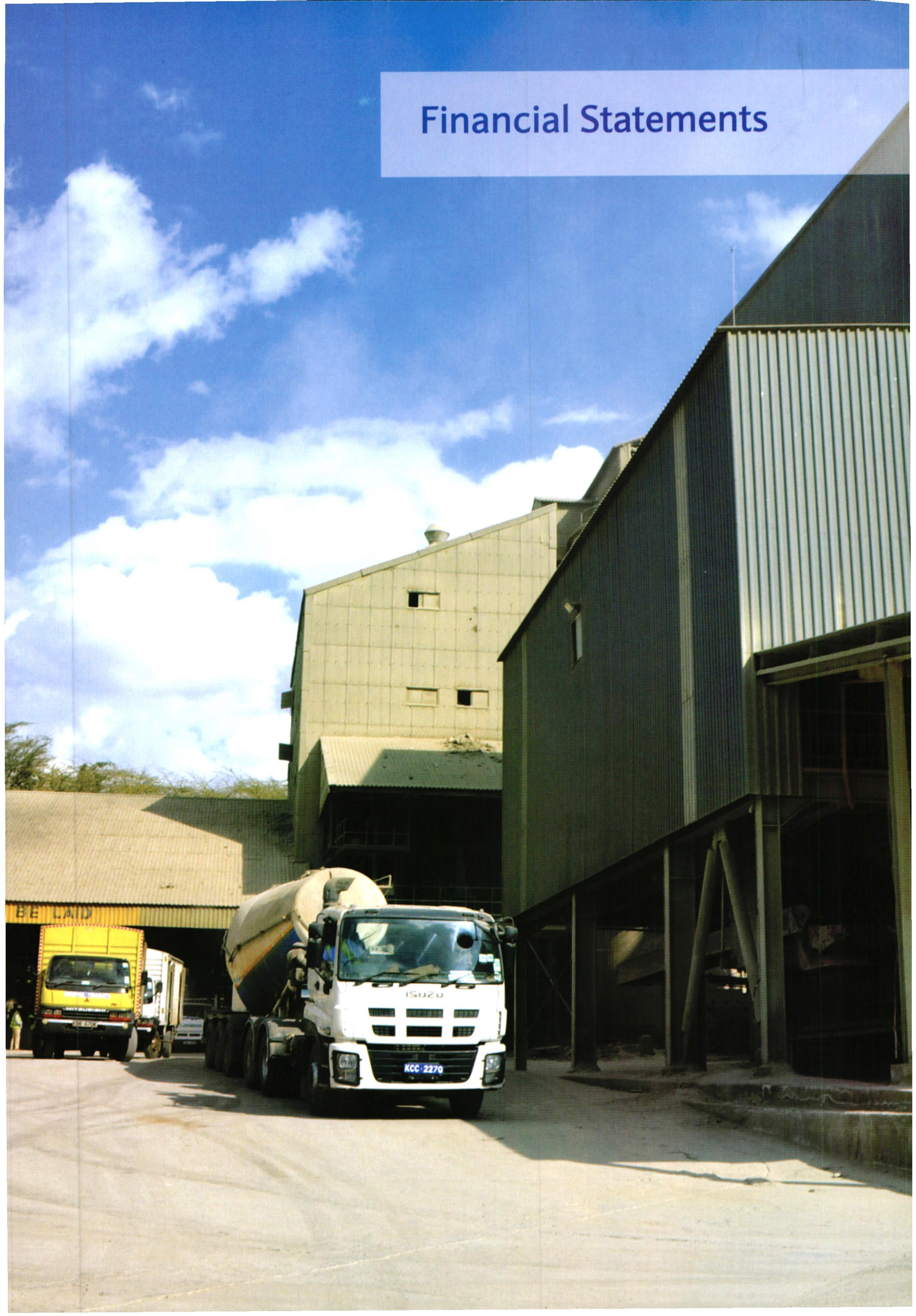
law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

11 September, 2020

Financial Statements



Financial Statements

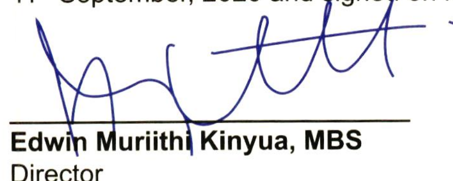
Group and Company statement of profit or loss and other comprehensive income

	Notes	Group Year ended 30 June 2019 Shs'000	Group Year ended 30 June 2018 Restated Shs'000	Company Year ended 30 June 2019 Shs'000	Company Year ended 30 June 2018 Restated Shs'000
Revenue	6	2,847,273	5,182,721	2,839,572	5,130,127
Cost of sales		(4,052,555)	(5,272,608)	(4,051,736)	(5,218,092)
Gross loss		(1,205,282)	(89,887)	(1,212,164)	(87,965)
Other operating income	9	1,691,487	398,235	1,691,487	398,235
Selling and distribution		(260,734)	(157,435)	(260,194)	(510,446)
Administration and establishment		(1,798,735)	(3,199,795)	(1,790,870)	(3,186,372)
Other operating expenses		(489,117)	(430,416)	(456,357)	(417,623)
Loss from operations	7	(2,062,381)	(3,479,298)	(2,028,098)	(3,804,171)
Finance income	10	25,275	24,064	25,275	23,999
Finance costs	10	(691,588)	(845,278)	(691,588)	(845,278)
Fair value(loss)/ gain on investment property	15	(233,204)	11,342,244	(233,204)	11,342,244
(Loss)/profit before taxation		(2,961,898)	7,041,732	(2,927,615)	6,716,794
Income tax (expense)/credit	11	(399,990)	811,541	(399,990)	811,541
(Loss)/profit for the year		(3,361,888)	7,853,273	(3,327,605)	7,528,335
Other comprehensive income for the year					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of post-employment benefit obligations net of tax	22	92,261	56,979	92,261	56,979
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translation of foreign operation net of tax		(19,145)	7,515	-	-
Total other comprehensive (loss)/income for the year		(3,288,772)	7,917,767	(3,235,344)	7,585,314
Earnings/(loss) per share					
- Basic and diluted (Shs)	12	(37.35)	87.26	(36.97)	83.65

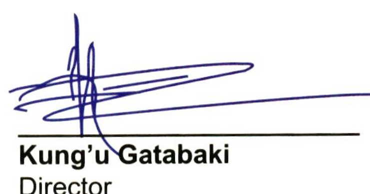
Group and Company statement of financial position

	Notes	Group At 30 June 2019 Shs'000	Group 2018 Restated Shs'000	Company At 30 June 2019 Shs'000	Company 2018 Restated Shs'000
ASSETS					
Non-current assets					
Investment properties	15	23,794,897	27,184,752	23,794,897	27,184,752
Property, plant and equipment	13	7,475,702	8,033,970	7,475,747	8,034,008
Deferred income tax	25	-	392,755	-	392,755
Prepaid operating leases	14	6,353	6,438	6,353	6,438
Investment in subsidiary	16	-	-	2,500	2,500
Due from related parties	33(iii)	1,645,709	-	1,645,709	-
		32,922,661	35,617,915	32,925,206	35,620,453
Current assets					
Trade and other receivables	20	2,375,618	630,615	2,363,375	558,798
Inventories	19	1,131,473	1,248,664	1,131,247	1,247,113
Current income tax	11	50,078	57,313	49,937	57,172
Cash and cash equivalents	18	61,275	49,047	51,262	45,617
		3,618,444	1,985,639	3,595,821	1,908,700
TOTAL ASSETS		36,541,105	37,603,554	36,521,027	37,529,153
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	21	450,000	450,000	450,000	450,000
Share premium	21	648,000	648,000	648,000	648,000
Asset revaluation reserve	21	1,360,599	1,506,107	1,360,599	1,506,107
Retained earnings		19,046,105	22,170,224	19,045,081	22,134,917
Other reserve		15,274	34,419	-	-
TOTAL EQUITY		21,519,978	24,808,750	21,503,680	24,739,024
Non-current liabilities					
Post-employment benefits obligation	22	1,192,486	1,064,644	1,192,486	1,064,644
Borrowings	24	-	3,608,128	-	3,608,128
Deferred income tax	25	39,540	-	39,540	-
		1,232,026	4,672,772	1,232,026	4,672,772
Current liabilities					
Trade and other payables	27	6,776,285	5,806,321	6,772,505	5,801,646
Borrowings	24	5,527,789	1,010,577	5,527,789	1,010,577
Bank overdraft	26	1,194,437	1,074,697	1,194,437	1,074,697
Financial derivatives	17	188,910	128,757	188,910	128,757
Dividends payable	28	101,680	101,680	101,680	101,680
		13,789,101	8,122,032	13,785,321	8,117,357
TOTAL EQUITY AND LIABILITIES		36,541,105	37,603,554	36,521,027	37,529,153

The financial statements on pages 48 to 98 were approved for issue by the board of directors on 11th September, 2020 and signed on its behalf by:



Edwin Muriithi Kinyua, MBS
Director



Kung'u Gatabaki
Director

Financial Statements

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Group statement of changes in equity

Year ended 30 June 2018	Share Capital Shs'000	Share Premium Shs'000	Asset revaluation reserve Shs'000	Retained earnings Shs'000	Other reserve Shs'000	Total Shs'000
At start of year	450,000	648,000	1,650,387	14,115,692	26,904	16,890,983
Transfer of excess depreciation	-	-	(206,112)	206,112	-	-
Deferred tax on excess depreciation	-	-	61,832	(61,832)	-	-
Profit for the year	-	-	-	7,853,273	-	7,853,273
Other comprehensive income	-	-	-	56,979	7,515	64,494
Total comprehensive income for the year	-	-	-	7,910,252	7,515	7,917,767
At end of year	450,000	648,000	1,506,107	22,170,224	34,419	24,808,750
Year ended 30 June 2019						
At start of year						
as previously reported	450,000	648,000	1,506,107	22,057,519	34,419	24,696,045
prior year adjustment (Note 23)	-	-	-	112,705	-	112,705
As restated	450,000	648,000	1,506,107	22,170,224	34,419	24,808,750
Transfer of excess depreciation	-	-	(207,869)	207,869	-	-
Deferred tax on excess depreciation	-	-	62,361	(62,361)	-	-
Loss for the year	-	-	-	(3,361,888)	-	(3,361,888)
Other comprehensive income	-	-	-	92,261	(19,145)	73,116
Total comprehensive income for the year	-	-	-	(3,269,627)	(19,145)	(3,288,772)
At end of year	450,000	648,000	1,360,599	19,046,105	15,274	21,519,978

Company statement of changes in equity

	Share Capital Shs'000	Share Premium Shs'000	Asset revaluation Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2018					
At start of year	450,000	648,000	1,650,387	14,405,323	17,153,710
Transfer of excess depreciation	-	-	(206,112)	206,112	-
Deferred tax on excess depreciation	-	-	61,832	(61,832)	-
Profit for the year	-	-	-	7,528,335	7,528,335
Other comprehensive income	-	-	-	56,979	56,979
Total comprehensive income for the year	-	-	-	7,585,314	7,585,314
At end of year	450,000	648,000	1,506,107	22,134,917	24,739,024
Year ended 30 June 2019					
At start of year as previously reported	450,000	648,000	1,506,107	22,022,212	24,626,319
prior year adjustment (Note 23)	-	-	-	112,705	112,705
as restated	450,000	648,000	1,506,107	22,134,917	24,739,024
Transfer of excess depreciation	-	-	(207,869)	207,869	-
Deferred tax on excess depreciation	-	-	62,361	(62,361)	-
Loss for the year	-	-	-	(3,327,605)	(3,327,605)
Other comprehensive income	-	-	-	92,261	92,261
Total comprehensive income for the year	-	-	-	(3,235,344)	(3,235,344)
At end of year	450,000	648,000	1,360,599	19,045,081	21,503,680

Group and Company statement of cash flows

	Notes	Group Year ended 30 June 2019 Shs'000	Group Year ended 30 June 2018 Restated Shs'000	Company Year ended 30 June 2019 Shs'000	Company Year ended 30 June 2018 Restated Shs'000
Cash flows from operating activities					
Net cash used in operations	29	(1,514,617)	(211,692)	(1,520,961)	(208,405)
Interest paid		(159,471)	(319,957)	(159,710)	(319,892)
Interest received		3,059	2,831	3,059	2,766
Income tax paid		-	(992)	-	(713)
Net cash used in operating activities		(1,671,029)	(529,810)	(1,677,612)	(526,244)
Cash flows from investing activities					
Purchase of property, plant and equipment	13	(26,425)	(83,461)	(26,425)	(83,461)
Purchase of capital work-in-progress	13	-	(6,150)	-	(6,150)
Proceeds from sale of investment properties		1,200,000	-	1,200,000	-
Proceeds of sale of motor vehicles		4,436	6,341	4,436	6,341
Net cash generated/(used) in investing activities		1,178,011	(83,270)	1,178,011	(83,270)
Cash flows from financing activities					
Proceed from borrowings	24	1,439,755	2,154,420	1,439,755	2,154,420
Repayment of borrowings	24	(1,054,249)	(687,714)	(1,054,249)	(687,714)
Net cash generated from financing activities		385,506	1,466,706	385,506	1,466,706
Net (decrease)/increase in cash and cash equivalents		(107,512)	853,626	(114,095)	857,192
Movement in cash and cash equivalents					
At start of year		(1,025,650)	(1,879,276)	(1,029,080)	(1,886,272)
(Decrease)/increase		(107,512)	853,626	(114,095)	857,192
At end of year	29	(1,133,162)	(1,025,650)	(1,143,175)	(1,029,080)

Notes

1 General information

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

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

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

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income, in these financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Going concern

Group and Company incurred a net loss from operations of Shs 2,062,381,000 (2018: 3,479,298,000) and Shs 2,028,098,000 (2018: Shs 3,804,171,000) respectively during the year ended 30 June 2019 and, as of that date, the Group's and Company's current liabilities exceeded the current assets by Shs 10,170,657,000 (2018: Shs 6,136,393,000) and Shs 10,189,500,000 (2018: Shs 6,208,657,000) respectively.

This movement was largely due to transfer of long term loans to current liabilities on account of default on existing loan covenants. The Company defaulted on a loan from one of the key lenders and subsequent to year end obtained approval from shareholders to dispose some of the idle land to retire the debt. Factors that have affected performance have been explained in the Director's Report and Managing Director's Report. In particular, the plant continues to operate significantly below capacity due to working capital constraints, lack of essential spare parts and loss of market share to competitors. Due to the cashflow constraints, the Company has been unable to settle the amounts due to its key suppliers and regulatory authorities including Kenya Revenue Authority and pension liabilities.

The Company has significant litigations and claims against it which if successful, may result in claims that are unlikely to be settled, given the entity's current financial position. Details of the significant claims include employee related claims arising from unpaid salaries based on the CBA terms with an estimated total exposure of Shs 1.7 billion, debt claims by suppliers for unpaid bills for services rendered and /or goods delivered totalling Shs. 411 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling to Shs. 173 million. Most of these claims have been provided for in the financial statements.

Due to the cashflow constraints, the Company has been unable to settle the amounts due to regulatory authorities which include PAYE balances of Shs 1,391 million, VAT balances of Shs 284 million and pension balances of Shs 91 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 21,519,978,000 (2018; Shs 24,808,750) 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. There is therefore, enough room that guarantees the Group's ability to meet its obligations.

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

The Company has taken decisive steps to reduce staff overheads with a reduction of 30% on monthly staff costs to be achieved from first quarter of 2019/2020.The company has also engaged its lenders to restructure and eventually retire the expensive loan obligations.

The requisite approvals for the disposal of the idle assets have been obtained and actualization of the benefits expected in the second quarter of the financial year ending 30 June 2020. 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

Two new standards and several amendments to standards became effective for the first time in the financial year beginning 1 July 2018 and have been adopted by the Group. The two new standards are detailed as follows;

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 July 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'
Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

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

IFRS 9 Financial Instruments(continued)

a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 are compared as follows:

Financial assets	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	At amortised cost
Trade and other receivables	Loans and receivables	At amortised cost
Amounts due from related parties	Loans and receivables	At amortised cost
Other receivables	Loans and receivables	At amortised cost
Short-term deposit	Loans and receivables	At amortised cost

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 on 1 July 2018:

As at 1 July 2018 Group Financial assets amortised at cost	Carrying amount 30 June 2018 under IAS 39 Shs'000	Remeasurement Shs'000	Carrying amount 1 July 2018 under IFRS 9 Shs'000
Trade receivables	179,011	-	179,011
Other receivables	124,189	-	124,189
Cash at bank balances	2,984	-	2,984
Short-term deposit	41,021	-	41,021
Amount due from related parties	327,415	-	327,415
	674,620	-	674,620

As at 1 July 2018 Company Financial assets amortised at cost	Carrying amount 30 June 2018 under IAS39 Shs'000	Remeasurement Shs'000	Carrying amount 1 July 2018 under IFRS 9 Shs'000
Trade receivables	123,146	-	123,146
Other receivables	97,323	-	97,323
Cash at bank balances	2,181	-	2,181
Short-term deposit	41,021	-	41,021
Amount due from related parties	338,329	-	338,329
	602,000	-	602,000

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures(continued)

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

IFRS 9 Financial Instruments(continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9(continued)

The loss allowance for cash at bank balances and short-term deposit was assessed using the 12 months expected credit loss model which is based on external ratings for the financial institutions.

The loss allowance for Trade receivables, other receivables and related party receivables was assessed using the lifetime ECL model.

The adoption of the standard had no material impact on the Group and Company's financial statement hence no adjustment has been recognised in opening retained earnings.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the Group. The application of the standard, retrospectively, in the current year has not had a material impact on the financial position or financial performance of the Group, and a prior period adjustment has, therefore, not been required.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

IFRS 16, 'Leases'

IFRS 16 was issued in January 2016 and will be effective for the first time in the financial year beginning 1 January 2019. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Group is the lessee. As at the date of this report, the directors performed a preliminary assessment and concluded that there will be no material impact on the financial statements on adoption of IFRS 16. The group will recognise new assets and liabilities for its operating leases of Group depots and leasehold land.

There are no other IFRSs or IFRIC interpretations not yet effective that are not expected to have a material impact on the Company.

IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017)

The Interpretation, applicable to annual periods beginning on or after 1st January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures(continued)

(ii) New standards and interpretations that are not yet effective and have not been early adopted (continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

• IAS 12 Income Taxes - The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

• IAS 23 Borrowing Costs - The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

(b) Consolidation

(i) Subsidiaries

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(b) Consolidation(continued)

(i) Subsidiaries(continued)

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

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

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

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

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

(iii) Disposal of subsidiaries

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

(c) Revenue recognition

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

i) Sale of cement and paving blocks

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(d) Interest income

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

(e) Borrowing costs

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

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

(f) Current and deferred income tax

(i) Current income tax

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

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

(ii) Deferred income tax

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(g) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.
Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value profit or loss in profit or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

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

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

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

(h) Property, plant and equipment

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(h) Property, plant and equipment(continued)

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

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Group as the lessee. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(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.

(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.

Notes (continued)

2 Summary of significant accounting policies(continued)

(l) Investment properties

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

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

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

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

(m) Leasehold land

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

(n) Financial instruments

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

Initial recognition

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

Classification

The Company classifies its financial instruments into the following categories:

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

All financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:
- Demand and term deposits with banking institutions, trade and other receivables, and amounts due from related parties were classified as at amortised cost.
- Borrowings and trade and other liabilities were classified as at amortised cost.

Notes (continued)

2 Summary of significant accounting policies(continued)

(n) Financial instruments(continued)

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.

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.

Notes (continued)

2 Summary of significant accounting policies(continued)

(n) Financial instruments(continued)

Under previous IAS 39, The Group classified its financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- loans and receivables;
- held to maturity investments;
- available-for-sale assets.

Management determined the appropriate classification of its financial assets at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

The Group and Company financial assets as at 30 June 2018 consisted of cash and cash equivalents, Short-term deposits and trade and other receivables which were of short duration with no stated interest rate and were measured at amortised cost using the effective interest rate. An allowance was made for any unrecoverable amounts based on the incurred loss model where a provision was recognised when indicators of impairment were identified.

For financial liabilities, there were no changes to classification and measurement except for recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Group and Company had no financial liabilities designated at fair value through profit or loss as at 30 June 2018.

(o) Non-financial assets

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

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

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

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

(p) 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)

Notes (continued)

2 Summary of significant accounting policies(continued)

(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) 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.

(s) Employee benefits

i) Short-term benefits

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

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

ii) Retirement benefit costs

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

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

(t) 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)

3 Financial risk management objectives and policies

(u) Dividend distribution

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

(v) Comparatives

Where necessary, comparative numbers have been adjusted or restated to conform to changes in presentation in the current year or correct prior period errors. Narrative disclosure have been included in the respective notes.

3 Financial risk management objectives and policies

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

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

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

Credit risk

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

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

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

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

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

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

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

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

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

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

	Gross carrying amount	*Loss allowance*	*Net carrying amount*
At 30 June 2019 – Group	**Shs '000**	**Shs '000**	**Shs '000**
Trade receivables (Note 20)	430,022	(391,880)	38,142
Other receivables.	66,021	-	66,021
Amount due from related parties (Note 33(iii))	3,917,164	-	3,917,164
Cash at bank balances (Note 18)	6,983	-	6,983
Short-term deposit (Note 18)	43,278	-	43,278
	4,463,468	(391,880)	4,071,588
At 30 June 2018 – Group			
Trade receivables (Note 20)	558,389	(379,378)	179,011
Other receivables (Note 20)	124,189	-	124,189
Amount due to related parties (Note 33(iii))	327,415	-	327,415
Cash at bank balances (Note 18)	2,984	-	2,984
Short-term deposit (Note 18)	41,021	-	41,021
	1,053,998	(379,378)	674,620
At 30 June 2019 - Company	**Shs '000**	**Shs '000**	**Shs '000**
Trade receivables (Note 20)	392,726	(341,267)	51,459
Due from related parties (Note 33(iii))	4,287,510	(359,464)	3,928,046
Other receivables (Note 20)	29,579	-	29,579
Cash at bank balances (Note 18)	6,037	-	6,037
Short-term deposit (Note 18)	43,278	-	43,278
Exposure to credit risk	4,759,130	(700,731)	4,058,399

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

At 30 June 2018 - Company	Gross carrying amount Shs '000	Loss allowance Shs '000	Net carrying amount Shs '000
Trade receivables (Note 20)	454,888	(331,742)	123,146
Amount due from related parties (Note 20)	697,793	(359,464)	338,329
Other receivables (Note 20)	97,323	-	97,323
Cash at bank balances (Note 18)	2,181	-	2,181
Short-term deposits (Note 18)	41,021	-	41,021
Exposure to credit risk	1,293,206	(691,206)	602,000

Other receivable balances disclosed above excludes prepayments.

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

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

At 30 June 2019- Group	Gross carrying amount Shs'000	Loss allowance Shs'000	Net carrying amount Shs'000
Aged debtor balances			
Current	19,688	13,738	5,950
16- 30 days	6,910	1,175	5,735
31 to 60 days	10,223	3,646	6,577
61- 90 days	26,106	24,179	1,927
Over 90 days	367,095	349,142	17,953
	430,022	391,880	38,142

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

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

The following disclosure was applicable under IAS 39 but is not required under IFRS 9

	Group 2018 Shs'000	Company 2018 Shs'000
Neither past due nor impaired	48,275	42,224
Past due but not impaired		
-15 to 30 days past due	8,061	8,061
-31 to 60 days past due	19,405	14,052
-Over 60 days past due	103,270	58,809
Trade receivable not impaired	179,011	123,146
Impaired trade receivables	379,378	331,742
Gross trade receivables	558,389	454,888

The customers under the fully performing category are paying their debts as they continue trading. The debt that is overdue is not impaired and continues to be paid. The finance department is actively following these debts. The impaired debt has been fully provided for.

Liquidity risk

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

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

Group	< than 1 year Shs'000	Over 1 year Shs'000	Total Shs'000
At 30 June 2019			
Bank overdraft (Note 26)	1,194,437	-	1,194,437
Trade and other payables	6,257,728	-	6,257,728
Borrowings	6,010,078	-	6,010,078
Financial derivatives (Note 17)	188,910	-	188,910
Post-employment benefits obligation (Note 22)	-	1,192,486	1,192,486
Total financial liabilities	13,651,153	1,192,486	14,843,639

Notes (continued)

3 Financial risk management objectives and policies(continued)

Liquidity risk (continued)

	< than 1 year	Over 1 year	Total
	Shs'000	Shs'000	Shs'000
At 30 June 2018- Group			
Trade and other payables	5,026,277	-	5,026,277
Borrowings- term loan (Note 24)	1,297,696	4,182,366	5,480,062
Financial derivatives (Note 17)	128,757	-	128,757
Bank overdraft (Note 26)	1,074,697	-	1,074,697
Post-employment benefits obligation (Note 22)	-	1,064,644	1,064,644
Dividend payable (Note 28)	101,680	-	101,680
	7,629,107	5,247,010	12,876,117
At 30 June 2019- Company			
Trade and other payables	6,253,948	-	6,253,948
Borrowings (Note 24)	6,010,078	-	6,010,078
Bank overdraft (Note 26)	1,194,437	-	1,194,437
Post-employment benefits obligation (Note 22)	-	1,192,486	1,192,486
Financial derivatives (Note 17)	188,910	-	188,910
Dividends payable (Note 28)	101,680	-	101,680
Total financial liabilities	13,749,053	1,192,486	14,941,539
At 30 June 2018- Company			
Trade and other payables	5,021,602	-	5,021,602
Borrowings (Note 24)	1,297,696	4,182,366	5,480,062
Bank overdraft (Note 26)	1,074,697	-	1,074,697
Post-employment benefit (Note 22)	-	1,064,644	1,064,644
Financial derivatives (Note 17)	128,757	-	128,757
Dividends payable (Note 28)	101,680	-	101,680
	7,624,432	5,247,010	12,871,442

The borrowings carrying values stated in the statement of financial position defer from the values stated above, due to estimated future interest payable, included as part of the undiscounted cash flows for borrowings stated above. Statutory liabilities have also been excluded in arriving at trade and other payable amounts disclosed above.

Market risk

(i) Foreign exchange risk

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

At 30 June 2019, if the Shilling had weakened/strengthened by 5% against the Ugandan Shilling with all other variables held constant, post-tax profit for the year would have been Shs 2,893,000 higher/lower (2018: Shs 3,540,000), mainly as a result of Ugandan Shilling denominated trade payables and trade receivables.

Notes (continued)

3 Financial risk management objectives and policies(continued)

Market risk (continued)

(i) Foreign exchange risk(continued)

At 30 June 2019 if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 10,572,000 higher/lower (2018: (30,825,380)), mainly as a result of US Dollar denominated trade payables and cash balances.

At 30 June 2018, if the Shilling had weakened/strengthened by 5% against the Japanese Yen with all other variables held constant, post-tax profit for the year would have been Shs 15,281,000 higher/lower (2018: Shs 15,836,40), mainly as a result of Japanese Yen denominated loan

(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 2019 , if the interest rate had increased /decreased by 100 basis points with all other variables held constant, profit for the year would have been Shs 39,102,000 (2018: Shs 33,955,000) higher /lower.

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings. Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Group does not have a gearing ratio target and it is not subject to any imposed capital requirements.
The gearing ratios at 31 December 2019 and 2018 are as follows:

	Group		**Company**	
	2019 Shs'000	**2018 Shs'000**	**2019 Shs'000**	**2018 Shs'000**
Equity(i)	21,519,978	24,808,750	21,503,680	24,739,024
Debt (ii)	6,722,226	5,693,402	6,722,226	5,693,402
Less cash and cash equivalents (Note 18)	17,997	8,026	7,984	4,596
Net debt	6,704,229	5,685,376	6,714,242	5,688,806
Gearing ratio	31%	23%	31%	23%

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

Notes (continued)

4 Critical accounting estimates and judgements

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

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

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

(i) Impairment allowance on financial assets

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

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

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

(ii) Recoverability of deferred tax asset

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

(iii) Fair valuation of Investment properties

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

Management has made judgement when accounting for land occupied by illegal squatters as investment properties.

(iv) Fair value of property, plant and equipment

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

Notes (continued)

4 Critical accounting estimates and judgements(continued)

Critical accounting estimates and assumptions(continued)

(v) Impairment of non-financial assets

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

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

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

5 Segment information

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

	Group and Company	
	2019	**2018**
	Shs'000	**Shs'000**
The Group revenues are derived from sales in the following markets:		
Local market – Kenya	2,807,541	5,077,533
Regional market (East Africa)	39,732	105,188
	2,847,273	5,182,721

Sales to the regional market are done directly to selected export customers or through the wholly owned subsidiary, the East African Portland Cement Uganda Limited, whose net assets constitute less than 5% of the Group's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value. In addition, sales to regional market are 1% (2018 – 1%) of the total revenue hence there is only one reportable segment.

Notes (continued)

6 Revenue

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Recognised at a point in time:				
Bagged cement – local	2,769,943	4,958,220	2,769,943	4,958,220
Bagged cement – export	39,732	105,188	32,031	52,594
Bulk cement – local	34,844	106,351	34,844	106,351
Paving blocks- local	2,754	12,962	2,754	12,962
	2,847,273	5,182,721	2,839,572	5,130,127

7 Expenses by nature

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

	Group		Company	
	2019	2018 Restated	2019	2018 Restated
	Shs'000	Shs'000	Shs'000	Shs'000
Employee benefits expense (Note 8)	2,411,683	4,095,533	2,404,777	4,083,966
Cost of inventories consumed (Note 19)	1,350,286	1,991,897	1,350,286	1,991,897
Electricity expenses	603,711	852,277	603,642	852,172
Repair and maintenance costs	299,133	401,345	299,133	401,345
Depreciation on property, plant and equipment (Note 13)	536,544	527,063	536,537	527,015
Fines and penalties	321,662	244,162	321,662	244,162
Transport expenses	334,555	309,520	334,536	303,834
Other expenses	314,245	168,014	315,373	125,593
Office general expenses	169,492	183,191	168,538	181,343
Bank charges	126,633	143,428	125,633	131,463
Net foreign exchange loss	41,808	26,310	11,687	14,460
Professional fees	28,765	33,508	28,800	33,506
Depot rent	21,411	20,585	20,871	19,718
Advertising and public relations costs	18,906	41,191	18,906	41,191
Impairment loss allowance on receivables (Note 20)	12,502	13,304	9,525	372,768
Auditors' remuneration	9,720	8,687	9,166	7,861
Amortisation of prepaid lease rentals (Note 14)	85	239	85	239
	6,601,141	9,060,254	6,559,157	9,332,533

See Note 23 for details regarding the restatement as a result of an error.

8 Employee benefits expense

	Group 2019	Group 2018	Company 2019	Company 2018
Salaries and wages	1,662,201	2,254,429	1,656,335	2,244,411
Provision for KCAAWU Liability	412,942	1,461,486	411,902	1,459,937
Retirement benefits costs:				
- Defined benefit scheme	273,261	315,100	273,261	315,100
- Defined contribution scheme	59,569	61,565	59,569	61,565
- Social security costs (NSSF)	3,710	2,953	3,710	2,953
	2,411,683	4,095,533	2,404,777	4,083,966

Notes (continued)

8 Employee benefits expense (continued)

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Production	358	378	358	378
Sales and distribution	110	79	106	73
Management and administration	305	479	305	479
	773	936	769	930

See Note 23 for details regarding the restatement as a result of an error.

9 Other operating income

	Group 2019	Group 2018	Company 2019	Company 2018
Rent and electricity recovery	20,973	22,748	20,973	22,748
Sundry income	6,338	9,010	6,338	9,010
Cement transport recoveries	29,200	64,146	29,200	64,146
Gain from sale of investment properties	1,634,976	302,331	1,634,976	302,331
	1,691,487	398,235	1,691,487	398,235

10 Finance income and costs

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Finance income				
Interest income	3,059	2,831	3,059	2,766
Exchange gain on foreign currency loan	22,216	21,233	22,216	21,233
	25,275	24,064	25,275	23,999
Finance cost				
Interest on overdraft	149,146	219,485	149,146	219,485
Interest charged on loans (Note 24)	482,289	287,119	482,289	287,119
Interest on financial derivatives	6,582	32,067	6,582	32,067
Fair value loss on derivatives	53,571	306,607	53,571	306,607
	691,588	845,278	691,588	845,278
Net finance cost	666,313	821,214	666,313	821,279

The exchange (loss)/gain on the loan arises mainly from the valuation of the Japanese Yen denominated loan to Kenya Shillings at the year-end which is on account of the movement in market rates.

Notes (continued)

11 (a) Income tax expense

	Group and Company	
	2019 Shs'000	**2018 Restated Shs'000**
Current income tax	7,235	10,363
Deferred income tax (Note 25)	(1,335,789)	(821,904)
Deferred tax written off	1,728,544	-
Income tax expense(credit)	399,990	(811,541)

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

	Group		Company	
	2019 Shs'000	**2018 Restated Shs'000**	**2019 Shs'000**	**2018 Restated Shs'000**
(Loss)profit before income tax	(2,961,898)	7,041,732	(2,927,615)	6,716,794
Tax calculated at the statutory income tax rate of 30 (2018: 30%)	(888,569)	2,112,520	(878,285)	2,015,038
Tax effect of:				
Income not subject to tax	(490,492)	(3,402,673)	(490,492)	(3,402,673)
Expenses not deductible for tax purposes	50,507	478,612	40,225	576,094
Deferred tax write-off	1,728,544	-	1,728,544	-
Income tax expense	399,990	(811,541)	399,990	(811,541)

(a) Current Income tax

	Group 2019	Group 2018	Company 2019	Company 2018
At start of year	57,313	66,684	57,172	66,822
Tax charge for the year	(7,235)	(10,363)	(7,235)	(10,363)
Tax paid	-	992	-	713
	50,078	57,313	49,937	57,172

12 Earnings/(loss) per share

	Group 2019	Group 2018	Company 2019	Company 2018
Earnings/(loss) for purposes of basic and diluted earnings per share	(3,361,888)	7,853,273	(3,327,605)	7,528,335
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
Earnings/(loss) per share basic and diluted (Shs)	(37.35)	87.26	(36.97)	83.65

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 2019 or 30 June 2018. Therefore, a diluted earnings per share is the same as the basic earnings per share.

Notes (continued)

13 Property, plant and equipment- Group

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers office equipment furniture and fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
At 1 July 2017							
Cost or fair value	362,000	1,261,000	6,320,620	376,553	32,510	184,232	8,536,915
Net book value	362,000	1,261,000	6,320,620	376,553	32,510	184,232	8,536,915
Year ended 30 June 2018							
Opening carrying amount	362,000	1,261,000	6,320,620	376,553	32,510	184,232	8,536,915
Additions	-	-	46,887	20,681	15,893	6,150	89,611
Disposals	-	-	-	(3,991)	-	-	(3,991)
Critical spares write-off	-	-	(62,203)	-	-	-	(62,203)
Depreciation charge	-	(31,525)	(420,349)	(66,674)	(8,515)	-	(527,063)
Depreciation on disposal	-	-	-	663	38	-	701
Closing net book value	362,000	1,229,475	5,884,955	327,232	39,926	190,382	8,033,970
At 30 June 2018							
Cost or fair value	362,000	1,261,000	6,305,304	393,243	48,403	190,382	8,560,332
Accumulated depreciation	-	(31,525)	(420,349)	(66,011)	(8,477)	-	(526,362)
Closing net book value	362,000	1,229,475	5,884,955	327,232	39,926	190,382	8,033,970
Year ended 30 June 2019							
Opening carrying amount	362,000	1,229,475	5,884,955	327,232	39,926	190,382	8,033,970
Additions	-	4,602	10,453	101	11,269	-	26,425
Disposals	-	-	-	(39,665)	(1,054)	-	(40,719)
Critical spares write-off	-	-	(1,247)	-	-	-	(1,247)
Depreciation charge	-	(31,583	(423,867)	(69,184)	(11,910)	-	(536,544)
Depreciation on disposal	-	-	-	11,761	20		11,781
Impairment charge						(17,964)	(17,964)
Closing net book value	362,000	1,202,494	5,470,294	230,245	38,251	172,418	7,475,702
At 30 June 2019							
Cost or fair value	362,000	1,265,602	6,314,510	353,679	58,618	172,418	8,526,827
Accumulated depreciation	-	(63,108)	(844,216)	(123,434)	(20,367)	-	(1,051,125)
Net book value	362,000	1,202,494	5,470,294	230,245	38,251	172,418	7,475,702

Notes (continued)

13 Property, plant and equipment- Company

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers, office equipment and Fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
At 1 July 2017							
Cost or fair value	362,000	1,261,000	6,320,620	376,762	32,329	184,232	8,536,943
Net book value	362,000	1,261,000	6,320,620	376,762	32,329	184,232	8,536,943
Year ended 30 June 2018							
Opening carrying amount	362,000	1,261,000	6,320,620	376,762	32,329	184,232	8,536,943
Additions	-	-	46,888	20,681	15,892	6,150	89,611
Disposals	-	-	-	(3,991)	-	-	(3,991)
Critical spares write-off	-	-	(62,203)	-	-	-	(62,203)
Depreciation charge	-	(31,525)	(420,349)	(66,674)	(8,467)	-	(527,015)
Depreciation on disposal	-	-	-	663	-	-	663
Closing net book value	362,000	1,229,475	5,884,956	327,441	39,754	190,382	8,034,008
At 30 June 2018							
Cost or fair value	362,000	1,261,000	6,305,305	393,452	48,221	190,382	8,560,360
Accumulated depreciation	-	(31,525)	(420,349)	(66,011)	(8,467)	-	(526,352)
Closing net book value	362,000	1,229,475	5,884,956	327,441	39,754	190,382	8,034,008
Year ended 30 June 2019							
Opening carrying amount	362,000	1,229,475	5,884,956	327,441	39,754	190,382	8,034,008
Additions	-	4,602	10,453	101	11,269	-	26,425
Disposals	-	-	-	(39,665)	(1,054)	-	(40,719)
Critical spares write-off	-	-	(1,247)	-	-	-	(1,247)
Depreciation charge	-	(31,583)	(423,867)	(69,184)	(11,903)	-	(536,537)
Depreciation on disposal	-	-	-	11,761	20		11,781
Impairment of work in progress	-	-	-	-	-	(17,964)	(17,964)
Closing net book value	362,000	1,202,494	5,470,295	230,454	38,086	172,418	7,475,747
Cost or fair value	362,000	1,265,602	6,314,511	353,888	58,436	172,418	8,526,855
Accumulated depreciation	-	(63,108)	(844,216)	(123,434)	(20,350)	-	(1,051,108)
Net book value	362,000	1,202,494	5,470,295	230,454	38,086	172,418	7,475,747

Notes (continued)

13 Property, plant and equipment(continued)

Group and Company

The property, plant and equipment were revalued by Knight Frank Valuers Limited, registered valuers, as at 30 June 2017. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Group's policy is to revalue property, plant and equipment at least once every three to five years. Properties owned by the Group, Land Reference numbers 337/639, 8649, 9767 and 8786, and plant and machinery have been charged to secure loan facilities as disclosed under Note 24.

Critical spares included in plant and machinery amounted to Shs 89,208,785 (2018; 90,407,826) for the Group and Company.

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

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

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers, office equipment and Fittings	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
30 June 2019							
Cost	120,637	144,567	5,194,496	353,888	58,436	172,418	5,923,805
Accumulated depreciation	-	(28,083)	(608,897)	(98,197)	(13,590)	-	(748,767)
Net book value	120,637	116,484	4,585,599	255,691	44,846	172,418	5,175,038
30 June 2018							
Cost	120,637	139,965	5,184,043	393,452	48,221	190,382	5,956,063
Accumulated depreciation	-	(3,499)	(355,893)	(69,534)	(2,947)	-	(431,873)
Net book value	120,637	136,466	4,828,150	323,918	45,274	190,382	5,524,190

Fair value hierarchy:

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

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

Group and Company and Company property, plant and equipment were measured based on Level 3 inputs as at 30 June 2019 and 30 June 2018. The land was valued on an open market value basis while the other assets were valued on a depreciated replacement cost basis.

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

Notes (continued)

14 Prepaid operating leases

	Group and Company	
	2019	**2018**
	Shs'000	**Shs'000**
Cost		
At the beginning and at the end of the year	9,960	12,877
Reclassified to investment property	-	(2,636)
Disposal	-	(281)
	9,960	9,960
Amortisation		
At the beginning of the year	3,522	3,283
Charge for the year	85	239
At end of year	3,607	3,522
Net carrying amount	6,353	6,438

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.

The Group assets have been charged to secure loan facilities as disclosed in Note 24.

15 Investment properties

	Group and Company	
	2019	**2018**
	Shs'000	**Shs'000**
At start of year	27,184,752	15,867,999
Transfer from property and equipment	-	2,636
Disposal	(3,156,651)	(28,127)
Fair value (losses)/gain	(233,204)	11,342,244
	23,794,897	27,184,752

Investment properties relate to three pieces of leasehold land held by the Group under long-term lease arrangements and a freehold parcel in Kikambala. The fair value of the investment property is based on the valuation carried out by Lloyd Masika Limited independent valuers, on the basis of open market value (Level 2). The valuer is a registered valuer and has recent experience in the location and the category of the investment property being valued.

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

The Group assets have been charged to secure loan facilities as disclosed in Note 24.

Notes (continued)

16 Investment in subsidiary

Company	Beneficial ownership	Country of incorporation	2019 Shs'000	2018 KShs'000
East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

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

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

17 Financial derivatives

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

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities at year-end.

	Group and Company	
	2019 Shs'000	2018 Shs'000
Assets		
Cross currency swap	-	375,664
Liabilities		
Cross currency swap	(188,910)	(504,421)
	(188,910)	(128,757)

The group initiated a mark to market net settlement of the swap arrangement in the year resulting in a payable position of Kshs 188,910,000 as at 30 June 2019.

Prior year comparatives as at 30 June 2018 have been adjusted by offsetting loan swap asset and loan swap liability is the statement of financial position. Previously the balances were presented as separate line items on the statement of financial position.

18 Cash and cash equivalents

	Group		Company	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Bank balances	6,983	2,984	6,037	2,181
Cash on hand	11,014	5,042	1,947	2,415
Short-term deposits	43,278	41,021	43,278	41,021
	61,275	49,047	51,262	45,617

Notes (continued)

18 Cash and cash equivalents (continued)

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits at 30 June 2019 was 6% (2018 – 10.5%).

Prior year comparatives as at 30 June 2018 have been restated by presenting cash and cash equivalents and short term deposits as one financial statement line item on the statement of financial position. Previously the balances were presented as separate line items on the statement of financial position.

19 Inventories

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Consumables	1,037,399	1,919,325	1,037,399	1,919,325
Raw materials	74,932	101,671	74,932	101,671
Work-in-progress	4,256	10,052	4,256	10,052
Finished products	55,551	32,217	55,325	30,666
	1,172,138	2,063,265	1,171,912	2,061,714
Provision for obsolete inventories	(40,665)	(814,601)	(40,665)	(814,601)
	1,131,473	1,248,664	1,131,247	1,247,113

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,350,286,000 (2018: 1,991,897,000) for the Group and Company.

No inventory was written off in the current year.

The Group assets have been charged to secure loan facilities as disclosed in Note 24.

20 Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Gross trade receivables	430,022	558,389	392,726	454,888
Impaired trade receivables	(391,880)	(379,378)	(341,267)	(331,742)
Net trade receivables	38,142	179,011	51,459	123,146
Other receivables	66,021	124,189	29,579	97,323
Amount due from related parties (Note 33(iii))	2,271,455	327,415	2,282,337	338,329
	2,375,618	630,615	2,363,375	558,798

Amount due from related parties- movement

Gross amount due from related parties	2,271,455	327,415	-	697,793
Impairment	-	-	(359,464)	(359,464)
Net due from related parties (Note 33)	2,271,455	327,415	2,282,337	338,329

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Notes (continued)

20 Trade and other receivables(continued)

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

The closing loss allowances for trade receivables as at 30 June 2019 reconcile to the opening loss allowances as set out below;

	Group Shs'000	Company Shs'000
At 1 July 2017	366,074	318,438
Loss allowance in the year	13,304	13,304
30 June 2018 calculated under IAS 39	379,378	331,742
Amount adjusted through opening retained earnings	-	-
Opening loss allowance as at 1 July 2018 calculated under IFRS 9	379,378	331,742
Increase in loss allowance recognized through profit or loss	12,502	9,525
At 30 June 2019	391,880	341,267

Prior year comparatives as at 30 June 2018 have been adjusted by presenting trade and other receivable and amounts due from related parties as one financial statement line item on the statement of financial position. Previously the balances were presented as separate line items on the statement of financial position.

21 Share capital and reserves

	Group		Company	
Share capital	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Authorised:				
126,000,000 shares of Shs 5 each	630,000	630,000	630,000	630,000
Authorised, issued and fully paid:				
90,000,000 shares of Shs 5 each	450,000	450,000	450,000	450,000
Share premium	648,000	648,000	648,000	648,000

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

Notes (continued)

21 Share capital and reserves(continued)

Asset revaluation reserve

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Asset revaluation reserve	1,360,599	1,506,107	1,360,599	1,506,107

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

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

Other reserves

	Group	
	2019	2018
	Shs'000	Shs'000
Foreign currency translation reserve	15,274	34,419

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.

Retained earnings

	Investment Properties revaluation gains Shs '000	Realised profits(loss) Shs '000	Total retained earnings Shs '000
At 30 June 2018	21,388,008	782,216	22,170,224
At 30 June 2019	21,224,765	(38,634)	21,186,131
Company			
At 30 June 2018	21,388,010	746,907	22,134,917
At 30 June 2019	21,224,767	(39,660)	21,185,107

Financial Statements

Notes (continued)

22 Post-employment benefit obligations

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

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

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

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

	Group		Company	
	2019 Shs'000	2018 Restated Shs'000	2019 Shs'000	2018 Restated Shs'000
Staff gratuity	1,192,486	1,064,644	1,192,486	1,064,644

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

	Group and Company	
	2019 Shs'000	2018 Restated Shs'000
Current service cost	134,456	157,857
Net interest expense	138,805	157,243
Component of defined benefit costs recognised in profit or loss	273,261	315,100
Actuarial gains arising from changes in demographic and financial assumptions recognised in other comprehensive income	(131,801)	(81,398)
	141,460	233,702

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
Year ended 30 June 2019			
Actuarial gains –expert valuations	131,801	(39,540)	92,261
Year ended 30 June 2018- Restated			
Actuarial gains –expert valuations	81,398	(24,419)	56,979

Notes (continued)

22 Post-employment benefit obligations(continued)

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

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,064,644	1,198,545	1,064,644	1,198,545
Current service cost	134,456	157,857	134,456	157,857
Net interest expense	138,805	157,243	138,805	157,243
Actuarial gains arising from changes in assumptions	(131,801)	(81,398)	(131,801)	(81,398)
Benefit paid	(13,618)	(367,603)	(13,618)	(367,603)
At end of year	1,192,486	1,064,644	1,192,486	1,064,644

The significant actuarial assumptions used were as follows:

	Group and Company	
	2019	2018 Restated
	Shs'000	Shs'000
Discount rate (%)	13.3%	13.3%
Average salary escalation rate (%)	11.7%	11.7%

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

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by Shs 83,940,000 (increase by Shs 95,872,000);
- If the expected rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by Shs 82,192,000 (decrease by Shs 72,828,000);
- If the average life expectancy increases (decreases) by one year, the defined benefit obligation would increase by Shs 1,023,000 (decrease by Shs 955,000).

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.

See Note 23 for details regarding the restatement as a result of an error

Notes (continued)

23 Prior period adjustment

The company has a gratuity scheme for its unionisable staff, which is in effect a defined benefit arrangement as benefits are based on final pay at the time of retirement. The prior period adjustment relates to restatement of staff gratuity liability which was not being computed using the projected unit method in line with the requirement of IAS 19. In the current year, management involved an actuarial expert, Minet Kenya Consulting in the estimation of the defined benefit liability held by the Company as at 30 June 2019 and 30 June 2018.

Staff gratuity amounting to Shs 1,225,891,000 recorded as at 30 June 2018 was computed using a straight-line method without considering the benefits to periods of service and the use of actuarial assumptions that is expected to have an impact in assessing the defined benefit liability. An adjustment to reflect the overstatement of staff gratuity liability reported in prior year amounting to Shs 161,007,000 has been made in the financial statements for the year ended 30 June 2018.

It is not necessary to present a third statement of financial position as the adjustment materially affect the staff gratuity movements reported in the financial statements for the year ended 30 June 2018. The impact on the balance at 1 July 2017 in not material.

The effect of the restatement on the previously reported **statement of financial position and statement of profit or loss and other comprehensive income** for the year ended 30 June 2018 is as follows;

(a) Statement of profit or loss and other comprehensive income for the year ended 30 June 2018

Group	Administration and establishment expenses Shs '000	Income tax credit Shs '000	Remeasurement of post-employment benefits obligation Shs '000	Total comprehensive income Shs '000
As previously reported	(3,279,404)	835,424	-	7,805,062
Prior year adjustment	79,609	(23,883)	56,979	112,705
As restated	(3,199,795)	811,541	56,979	7,917,767

Company	Administration and establishment expenses Shs '000	Income tax credit Shs '000	Remeasurement of post-employment benefits obligation Shs '000	Total comprehensive income Shs '000
As previously reported	(3,265,981)	835,424	-	7,472,609
Prior year adjustment	79,609	(23,883)	56,979	112,705
As restated	(3,186,372)	811,541	56,979	7,585,314

Notes (continued)

23 Prior period adjustment (continued)

(b) Statement of financial position

Group	Staff gratuity Shs '000	Deferred income tax Shs '0000	Retained Earnings Shs '000
1 July 2018			
- As previously reported	1,225,891	441,057	22,057,519
- Prior year adjustment	(161,007)	(48,302)	112,705
As restated	1,064,884	392,755	22,170,224

Company	Staff gratuity Shs '000	Deferred income tax Shs '0000	Retained Earnings Shs '000
1 July 2018			
- As previously reported	1,225,651	441,057	22,022,212
- Prior year adjustment	(161,007)	(48,302)	112,705
As restated	1,064,644	392,755	22,134,917

Post-employment benefit obligations reported in financial year ended 30 June 2017 was not materially misstated and therefore a three-column statement of financial position has not been presented on restatement.

24 Borrowings

The borrowings are analysed as follows;

	Group and Company	
	2019 Shs'000	2018 Shs'000
Asset financing loan	3,657,565	2,843,357
Government debt (Note 33)	1,079,799	735,029
Post import finance loan	433,860	347,927
Japanese loan	339,590	692,392
Insurance premium financing	16,975	-
Total borrowings	5,527,789	4,618,705
Current portion of borrowings	5,527,789	1,010,577
Non-current portion of borrowings	-	3,608,128

Notes (continued)

24 Borrowings(continued)

Reconciliation of liabilities arising from financing activities

	Group and Company	
	2019	**2018**
	Shs'000	**Shs'000**
At start of year	4,618,705	2,886,113
Additions during the period	1,439,755	2,154,420
Interest charged to profit or loss	482,289	287,119
Principal and interest repayments	(1,054,249)	(687,714)
Foreign exchange gain(loss)	(22,216)	(21,233)
Penalties on late repayment	63,505	-
	5,527,789	4,618,705

Japanese loan

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

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

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

KCB loan facilities

(i) Asset finance loan

These are two term loan facilities with Kenya Commercial Bank (KCB). The facilities have an aggregate approved limit of Shs 3,269,692,000 as at 30 June 2019. Amounts drawn and outstanding are due and repayable strictly on demand. The interest charged on the facilities is Central Bank Rate(CBR) plus a margin of 4%.

(ii) Post import finance loan

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

(iii) Insurance premium finance (IPF)

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

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

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

The Group breached repayment covenant on KCB term loan facilities. Consequently, the outstanding debt was classified as current liability as at 30 June 2019.

Notes (continued)

24 Borrowings(continued)

Government of Kenya debt

The loan amount due to the government of Kenya accumulates from the interest and principal repayments made on the Japanese loan by the Government of Kenya on behalf of the Group as the loan guarantor. The Group records the loan repayments as additions to the debt payable to the government. There are no written terms with the government on repayment of the debt due. Consequently, the outstanding debt was classified as current liability as at 30 June 2019.

There are no loan facility/debt covenants the Group need to comply with.

25 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows:

	Group and Company	
	2019 Shs'000	2018 Restated Shs'000
At start of year	(392,755)	404,930
Credit to profit or loss (Note 11)	(1,335,789)	(821,904)
Charge to other comprehensive income(Note 11)	39,540	24,219
Deferred tax written off	1,728,544	-
At end of year	39,540	(392,755)

Group and Company

Year ended 30 June 2018- Restated	1 July 2017 Shs'000	Charge/ (credited) to Profit and loss Shs'000	Charge to OCI Shs'00	At 30 June 2018 Shs'000
Deferred tax liabilities				
Property, plant and equipment	2,238,342	(135,098)	-	2,103,244
Investment properties	791,010	568,228	-	1,359,238
	3,029,352	433,130	-	3,462,482
Deferred tax assets				
Tax losses carried forward	(2,054,918)	(692,031)	-	(2,746,949)
Other temporary difference	(569,504)	(563,003)	24,219	(1,108,288)
	(2,624,422)	(1,255,034)	24,219	(3,855,237)
Net deferred income tax liability(asset)	404,930	(821,904)	24,219	(392,755)

Notes (continued)

25 Deferred income tax(continued)

Group and Company

Year ended 30 June 2019	1 July 2018 Shs'000	Charge/(credited) to Profit and loss Shs'000	Charge to OCI Shs'000	At 30 June 2019 Shs'000
Deferred tax liabilities				
Property, plant and equipment	2,103,244	(444,109)	-	1,659,135
Investment properties	1,359,238	(169,494)	-	1,189,744
	3,462,482	(613,603)	-	2,848,879
Deferred tax assets				
Tax losses carried forward	(2,746,949)	(594,266)	-	(3,341,215)
Other temporary differences	(1,108,288)	(127,920)	39,540	(1,196,668)
	(3,855,237)	(722,186)	39,540	(4,537,883)
Net deferred income tax asset	(392,755)	(1,335,789)	39,540	(1,689,004)
Deferred tax written off	-	1,728,544	-	1,728,544
Net deferred income tax liability	(392,755)	392,755	39,540	39,540

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

Financial Year incurred	Tax asset (Shs '000)
2008/09	43,296
2009/10	98,134
2010/11	260,600
2011/12	62,180
2014/15	621,896
2015/16	674,989
2016/17	293,823
2017/18	692,031
2018/19	594,266
Total	3,341,215

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

Notes (continued)

26 Bank overdraft

	Group and Company	
	2019	2018
	Shs'000	Shs'000
KCB Bank Kenya Limited	1,194,437	1,074,697
Interest expense on bank overdraft	149,146	219,485

The Group has an overdraft facility with the KCB Bank Kenya Limited. The facility has an approved limit of Shs 970,000,0000 as at 30 June 2019(2018; Shs 2,030,000,000).

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

The Group exceeded the approved limit as 30 June 2019 by Shs 224,437,000(2018; Nil). The bank has recalled all debt outstanding on the Group due to late repayment.

The carrying amount of the bank overdraft approximates to the fair value. The effective interest rate at the reporting date was 13% (2018: 13%).

27 Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	3,469,713	3,301,100	3,469,713	3,310,639
Other payables and accruals	2,735,720	1,681,338	2,731,940	1,667,364
Due to related parties	518,557	780,044	518,557	780,044
Advance receipts from customers	52,295	43,839	52,295	43,599
At end of year	6,776,285	5,806,321	6,772,505	5,801,646

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.

28 Dividend payable

	Group and Company	
	2019	2018
	Shs'000	Shs'000
Dividend payable	101,680	101,680

Notes (continued)

29 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations

	Group		Company	
	2019 Shs'000	2018 Restated Shs'000	2019 Shs'000	2018 Restated Shs'000
(Loss)/profit before taxation	(2,961,898)	7,041,732	(2,927,615)	6,716,794
Adjustments for:				
Depreciation (Note 13)	536,544	527,063	536,537	527,015
Amortisation on prepaid operating leases (Note 14)	85	239	85	239
Impairment of work in progress	17,963	-	17,963	-
Related party balances write-off	-	-	-	299,646
Profit on disposal of investment properties	(1,634,876)	(302,331)	(1,634,876)	(302,331)
Loss(gain) on disposal of property, plant and equipment	24,502	(3,051)	24,502	(3,328)
Fair value loss/(gain) on investment property	233,304	(11,342,244)	233,304	(11,342,244)
Net foreign exchange gain	(41,728)	(53,369)	(22,344)	(21,233)
Increase in provision for penalties	63,505	-	63,505	-
Interest expense on borrowings	482,289	287,119	482,289	287,119
Interest expense on bank overdraft	149,146	219,485	149,146	219,485
Interest on financial derivatives	6,582	32,067	6,582	32,067
Interest income	(3,059)	(2,831)	(3,059)	(2,766)
Fair value loss on derivative instrument	53,571	306,607	53,571	306,607
Post-employment benefits service cost	273,261	315,100	273,261	315,100
Operating loss before working capital changes	(2,800,809)	(2,974,414)	(2,747,149)	(2,967,830)
Changes in working capital;				
Inventories	117,191	41,438	115,866	40,730
Trade and other receivables	199,037	(230,805)	139,463	(223,033)
Trade and other payables	969,964	2,952,089	970,859	2,941,728
Cash used in from operations	(1,514,617)	(211,692)	(1,520,961)	(208,405)

The amount Shs1,944,040,000 due from Kenya Railways Corporation (Note 33) for sale of investment properties during the year has been excluded in computation of changes working capital above.

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

Analysis of cash and cash equivalents	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Short term deposits (Note 18)	43,278	41,021	43,278	41,021
Cash and cash equivalents (Note 18)	17,997	8,026	7,984	4,596
Bank overdraft (Note 26)	(1,194,437)	(1,074,697)	(1,194,437)	(1,074,697)
	(1,133,162)	(1,025,650)	(1,143,175)	(1,029,080)

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 solved with the tax authorities. The company has paid Shs 122 million and appealed against a further Shs 473 million through the local committee, which subsequently ruled in favour of the company. KRA however filed a notice to appeal in the High Court against the Local Committee ruling. The substantive appeal to the High Court has however not been filed by KRA. The view of directors is that no additional liabilities will arise from these matters.

ii)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.

31 Capital commitments

	2019 Shs'000	2018 Shs'000
Authorised by the directors but not contracted for	1,017,000	1,003,888
Authorised by the directors and contracted for	-	36,022

32 Operating lease rentals

The Group has entered into operating lease agreements for leasing of most of its depots. These leases have an average life of between 12 months to 36 months with a renewal option on expiry of the contract.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Group and Company	
	2019 Shs'000	2018 Shs'000
Within 1 year	22,242	22,242
Later than 1 year but not later than 2 years	21,524	21,524
	43,766	43,766

33 Related party transactions

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

	Group and Company	
Shareholder	**2019**	**2018**
Bamburi Cement Limited	12.5%	12.5%
Cementia Holding	14.6%	14.6%
Associated international Cement	14.6%	14.6%
National Social Security Fund	27%	27%
The National Treasury	25.3%	25.3%
Other investors	6%	6%
	100%	100%

Notes (continued)

33 Related party transactions(continued)

The Company is related to other companies which are related 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	Group 2019 Shs'000	Group 2018 Shs'000	Company 2019 KShs'000	Company 2018 Shs'000
East African Portland Cement Uganda	-	-	25,456	118,475
Kenya Railways Corporation	5,200,000	-	5,200,000	-
Kenya National Highway Authority	-	327,415	-	327,415
	5,200,000	327,415	5,225,456	445,890

The transaction with Kenya Railways Corporation is from the sale of investment properties during the period under review. The amount is receivable over a period of 3 years. The receivable balance disclosed in Note 33 (iii) has been discounted to arrive at the fair value as at 30 June 2019. The impact of discounting totalled to Shs 408,473,000.

(ii) Purchase of goods and services	Group 2019 Shs'000	Group 2018 Shs'000	Company 2019 KShs'000	Company 2018 Shs'000
National Social Security Fund	3,710	2,953	3,710	2,953
National Health Insurance Fund	16,286	24,591	16,286	24,591
Kenya Revenue Authority	518,557	780,044	518,557	780,044
The National Treasury loan advance	344,770	363,045	344,770	363,045
	883,323	1,170,633	883,323	1,170,633

(iii) Due from related parties:	Group 2019 Shs'000	Group 2018 Shs'000	Company 2019 Shs'000	Company 2018 Shs'000
Non-current				
Kenya Railways Corporation	1,645,709	-	1,645,709	-
Current				
Kenya Railways Corporation	1,944,040	-	1,944,040	-
Kenya National Highway Authority	327,415	327,415	327,415	327,415
The East African Portland Cement Company Uganda Limited	-	-	10,882	10,914
	2,271,455	327,415	2,282,337	338,329
	3,917,164	327,415	3,928,046	338,329

The amount due from Kenya Railways Corporation is from the sale of investment properties during the period under review. The amount is receivable in quarterly tranches of Shs 250 million. The last instalment is receivable in 30 June 2022.

Notes (continued)

33 Related party transactions(continued)

(iv) Due to related parties

	Group 2019 Shs'000	Group 2018 Shs'000	Company 2019 Shs'000	Company 2018 Shs'000
Kenya revenue authority	518,557	780,044	518,557	780,044
The National Treasury (Note 24)	1,079,799	735,029	1,079,799	735,029
	1,598,356	1,515,073	1,598,356	1,515,073

(iv) 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 2019 Shs'000	Group 2018 Shs'000	Company 2019 Shs'000	Company 2018 Shs'000
Salaries and other short-term employee benefits	69,932	68,832	69,932	68,832
Post-employment benefits	11,874	11,769	11,874	11,769
	81,806	80,601	81,806	80,601

(v) Directors' remuneration

	Group 2019 Shs'000	Group 2018 Shs'000	Company 2019 Shs'000	Company 2018 Shs'000
Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments included in key management compensation above	27,301	25,792	27,301	25,792
	28,401	26,892	28,401	26,892

34 Events after reporting date

Turnaround Plans

Subsequent to year end, the company obtained Cabinet approval for its Turnaround plans which include sale of LR 8786 for purposes of retiring KCB debt obligations, voluntary surrender of land LR 10425 consisting of 4,272 acres for purposes of support for the Big 4 agenda and land LR 7815 for purposes of retirement of all Government obligations. The Government also committed to clear all encumbrances from land held by the Company. The Board sought shareholder approval through an Extraordinary General Meeting held on 27th September 2019. No other material events or circumstances have arisen between the reporting date and the date of this report.

COVID – 19 Impact Assessment

Discovery and spread of the novel coronavirus COVID – 19 led to a global pandemic that resulted to Governments initiating containment measures. This ultimately led to subdued economic activity emanating from prevention measures adopted by the Government of Kenya and hence declining.

Notes (continued)

34 Events after reporting date(continued)

aggregate demand. This has directly impacted the company's post year end top line as a result of declining consumer purchasing power.

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

The aggregate impact of COVID – 19 necessitated a downward revision of forecasted volumes by 30%, with a 40% impact on realised volumes compared to budget thus far. We have assessed the impact of the global COVID-19 pandemic and whereas the situation is still evolving, the Board and management continue to monitor the impact of the pandemic closely. In the short term, focus is on value chain controls to support the top line complemented by conclusion of the final phase of staff rationalization programme and balance sheet restructuring within the next 12 months which will unlock funding for medium term initiatives.

The Board, through the Management taskforce on COVID – 19, instituted measures to safeguard the well-being of all stakeholders of EAPC Plc in compliance with Government directives. There have been no immediate material shocks to our business that require adjustments or disclosures in the financial statements for the period ended 30 June 2019.

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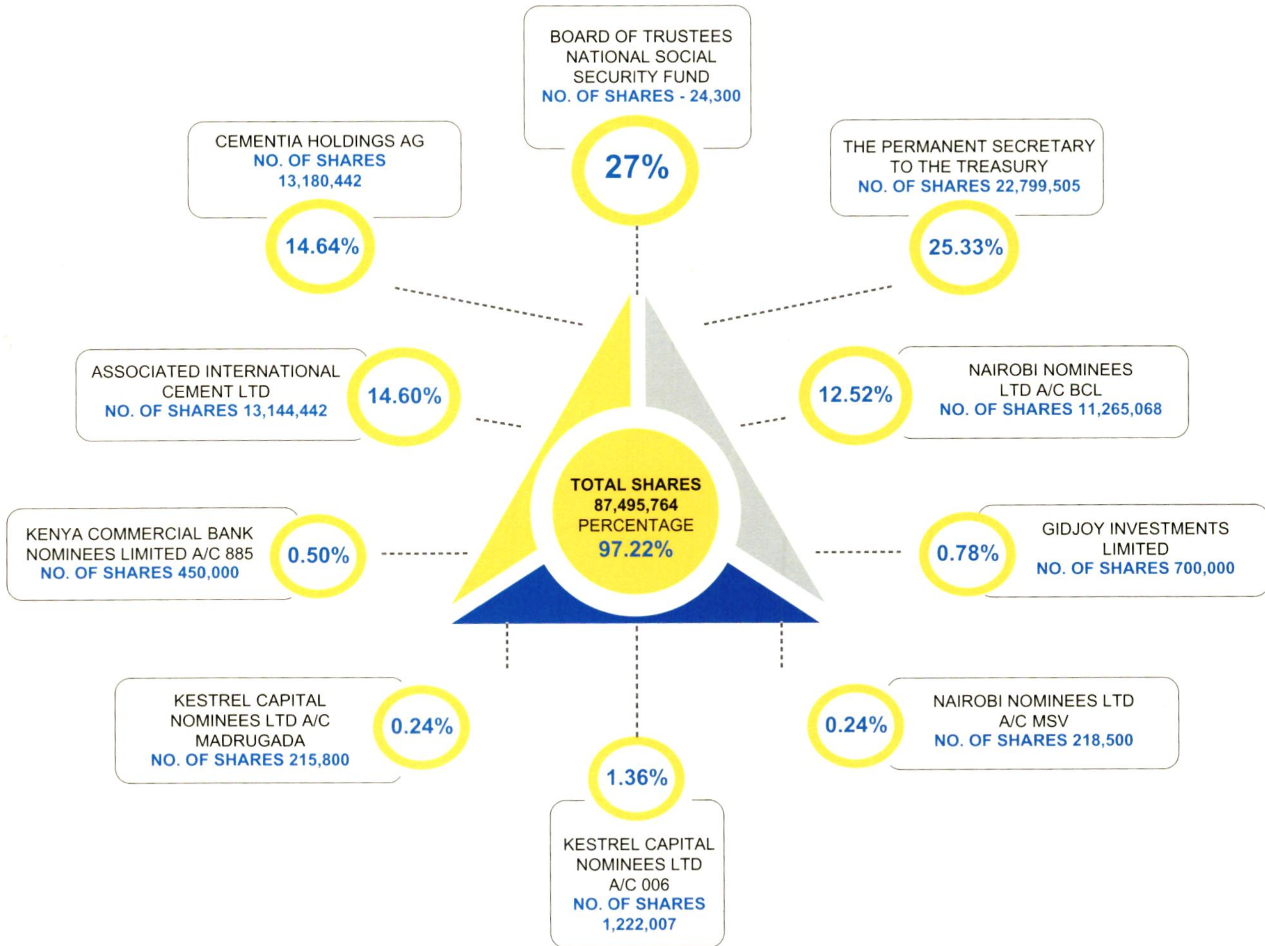
Principal Shareholders as at June 30, 2019

The top ten shareholding in the company and the respective number of shares held as at June 30, 2019 are as follows:



Share Distribution as at June 2019

Category	No. of Shareholders	Shares Held	Percentage
1-1,000	654	180,366	0.20
1,001-5,000	345	510,641	0.57
5,001-10,000	95	401,062	0.45
10,001-50,000	56	891,324	0.99
50,001-100,000	9	443,103	0.49
Over 100,000	15	87,573,504	97.30
	1,174	90,000,000	100.00

NOTICE OF THE ANNUAL GENERAL MEETING

TO ALL SHAREHOLDERS

NOTICE is hereby given that, in accordance with the provisions of section 280 of the Companies Act, 2015 and pursuant to a Court Order issued by the High Court of Kenya in Miscellaneous Application No. E680 of 2020 on Wednesday, 29 April 2020, the Eighty Seventh Annual General Meeting of the Company will be held via electronic communication, on Thursday 17 December 2020 at 12 noon to transact the following business:

AGENDA

ORDINARY BUSINESS

1. To read the notice convening the meeting, table proxies and to confirm the presence of a quorum.
2. To confirm the minutes of the 86th Annual General Meeting held on 11th January 2019.
3. To receive the Chairman's report.
4. To receive, consider and adopt the Financial Statements for the year ended 30th June 2019 together with the reports of the Directors and Auditors thereon.
5. To note that the Directors do not recommend payment of a dividend in respect of the financial year ended 30 June 2019.
6. To approve the remuneration of the Directors as shown in the Financial Statements for the year ended 30 June 2019
7. To note that the audit of the Company's book of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed in accordance with Section 11 of the State Corporations Act (as amended by the Miscellaneous Law Amendment Act, 2002), and Section 23 of the Public Audit Act 2015.

To Elect Directors

8. To re-elect Kung'u Gatabaki as a Director of the Company, who retires by rotation at this meeting in accordance with Articles 128 and 130 of the Company's Articles of Association, (who having attained the age of 70 years) and being eligible, offers himself for re-election.
9. To re-elect Prof. Sarone Ole Sena as a Director of the Company, who retires by rotation at this meeting in accordance with Articles 128 and 130 of the Company's Articles of Association, (who having attained the age of 70 years) and being eligible, offers himself for re-election.

SPECIAL BUSINESS

10. To consider and if approved pass the following Special Resolution:

    "That the Articles of Association of the company be amended by inserting the following article immediately after the present article 63 and numbering the new Article as Article 63A as follows:

    Article 63A

    Every General Meeting shall be called by at least twenty-one days' notice in writing (exclusive of the day on which it is served or deemed to be served and of the day for which it is given). The notice shall specify the place, the date, the time and the mode of transmission. Members may, if they think fit, confer/hold a meeting by telephone, closed circuit television, video conferencing or other electronic means of audio or audio/visual communication or a combination thereof ("conference").Notwithstanding that the members are not present together in one place at the time of the conference, a resolution passed by the Members constituting a Quorum at such a Conference shall be deemed to have been passed at the General Meeting held on the day on which and at the time at which the conference was held. The provisions of these Article relating to proceedings of Members apply in so far as they are capable of application mutatis mutandis to such Conference. In case of special business, the nature of the business and shall be given in a manner hereinafter mentioned, to such persons as are under this Articles, entitled to receive such notice from the company; provided that a meeting may be called by shorter notice than specified in this Articles if so agreed by the members referred to in and otherwise in accordance with the provisions of section 133(3) of the Act.

11. To transact any other business of an annual general meeting of which due notice has been received.

BY ORDER OF THE BOARD

Jane Joram

Company Secretary

25th November 2020

NOTES:

Shareholders will be able to register to follow the meeting, vote electronically or by proxy and may ask questions in advance before the date of the Annual General Meeting in the manner detailed as follows:

i. Owing to the ongoing Coronavirus 2019 (COVID -19) pandemic and the related Public Health Regulations and directives passed by the Government restricting public gatherings, it is impossible, for EAPC PLC to hold a physical Annual General Meeting in the manner envisaged under the Articles of Association of the Company and section 280 of the Companies Act 2015. On 29 April 2020, the High Court of Kenya in Miscellaneous Application No. E680 of 2020, issued an order permitting any company listed on the Nairobi Securities Exchange to convene and conduct a virtual general meeting subject to receipt of a 'No Objection' from the Capital Markets Authority (CMA). Relying on this court order, EAPC PLC had convened and will conduct its virtual annual general meeting following receipt of a No Objection from the CMA.

ii. Shareholders wishing to participate in the meeting should register for the AGM:

a) **Through the web portal**

By logging onto **https://escrowagm.com/EAPCC/** and filling in the registration form. In order to complete the registration process, the shareholder will need to have their ID/Passport Numbers that were used to purchase their shares and/or their CDSC or Share Account Number at hand. For assistance, they should dial the following number: (+254) 710 888 000 between 9:00 a.m. to 5:00 p.m. from Monday to Friday.

b) **Unstructured Supplementary Service Data (USSD)**

By dialling *483*560# and following the prompts. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers that were used to purchase their shares and/or their CDSC or Share Account Number at hand. For assistance, shareholders should dial the following helpline number: (+254) 710 888 000 between 9:00 a.m. to 4:00 p.m. from Monday to Friday. Shareholders outside Kenya should dial the helpline number for assistance during registration. USSD costs are charged at Kshs 3 per session for Airtel subscribers and Kshs 1 per session for Safaricom subscribers.

iii. Registration for the AGM opens on 26th November 2020 at 9.00AM and will close on 15th December 2020 at 5.00 PM. Shareholders will not be able to register after this time.

iv. The following documents may be viewed on the Company website **www.eastafricanportland.com** (a) copy of this Notice and the proxy form; (b) the Company's Annual Report and Audited financial statements for the year ended 30 June 2019; (c) the Shareholders Circular; (d) a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; and (e) a copy of the No Objection issued by the Capital Markets Authority.

v. Any shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his/her stead. Such proxy need not be a member of the Company.

vi. A proxy form is provided with the Annual Report. The proxy form can also be obtained from **www.eastafricanportland.com** Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to the Registered Office of the Company so as to arrive not later than 10.00 AM on 15th December 2020.

vii. Duly signed proxy forms may also be emailed to agm@eapcc.co.ke in PDF format. A proxy form must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an office or duly authorized attorney of such body corporate.

viii. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before 15th December 2020 at 2.30 PM by: (a) sending their written questions by email to **agm@eapcc.co.ke** (b) to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the Registered Office of the Company. Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions or clarifications. The Company's directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the AGM. Shareholders will be given an opportunity to ask questions during the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the AGM.

ix. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will received a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, as a reminder that the AGM will begin in an hours' time and providing a link to the live stream

x. Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote (when prompted by the Chairman) via the USSD prompts.

xi. Results of the resolutions voted on will be published on **www.eastafricanportland.com** within 24 hours following conclusion of the AGM.

Shareholders will be notified on any updates relating to the AGM owing to the changing situation arising from the COVID – 19 pandemic. We appreciate the understanding of our shareholders as we navigate the evolving business conditions posed by COVID – 19.

NOTES

EAST AFRICAN PORTLAND CEMENT PLC

PROXY FORM

I/WE ____

OF ____

Being a member of the above Company, hereby appoint:

____

OF ____

Or failing him, the Chairman of the meeting, my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 17th December 2020 at noon and at any adjournment thereof.

As witness my/our hand this __________ Day of __________________ 2020

Signed ______________________________

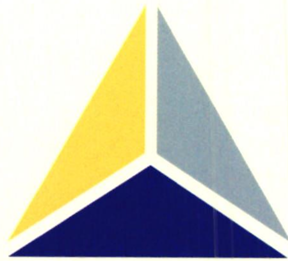
Signed ______________________________

Note:

1) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not to be a member of the Company.

2) In the case of a member being a Limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

3) Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.



East African Portland
Cement PLC

Holding Life Together

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