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REPORT

OF

THE AUDITOR-GENERAL

ON

EAST AFRICAN PORTLAND CEMENT PLC

**FOR THE YEAR ENDED
30 JUNE, 2022**

THE NATIONAL ASSEMBLY

DATE: 22 FEB 2023 Wednesday

TABLED

Leader of the Majority Party

MEMBER OF PARLIAMENT

Mado

EAST AFRICAN PORTLAND CEMENT PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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DIRECTORS	<p>Edwin M. Kinyua, EBS Oliver Mwandigha Kirubai</p> <p>Kungu Gatabaki Prof. Sarone Ole Sena Hon. (Amb) Ukur Yatani, EGH</p> <p>Dr. Anthony Omerikwa</p> <p>Amb. Peter Kirimi Kaberia</p>	<p>Chairman Managing Director (Appointed on 9th September 2021)</p> <p>Cabinet Secretary, National Treasury (Alternate Director – Edward Wamweya)</p> <p>Representative of National Social Security Fund (NSSF) (Alternate Director – Moses Cheseto) Principal Secretary, State Department for Industrialization, Ministry of Industry, Trade and Enterprise Development (Alternate Director – Patricia Aruwa) (Alternate Director- Nancy Muya)</p>
SECRETARY	<p>Florence Mitey Certified Public Secretary (Kenya) P. O. Box 40101 - 00100 Nairobi</p>	
REGISTERED OFFICE	<p>L R 337/113/1 Namanga Road, off Mombasa Road P. O. Box 40101 – 00100 Nairobi</p>	
REGISTRARS	<p>Haki Registrars P. O. Box 40868 – 00100 Nairobi</p>	
BANKERS	<p>KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 30081 – 00100, Nairobi</p> <p>Citibank, N.A, P. O. Box 30711 – 00100. Nairobi</p> <p>Stanbic Bank Limited Kimathi Street P. O. Box 30550 - 00100 Nairobi</p> <p>Equity Bank Limited Kenyatta Avenue P. O. Box 104860 – 00100, Nairobi</p>	<p>Standard Chartered Bank Kenya Kenyatta Avenue P. O. Box 30003 – 00100, Nairobi</p> <p>Co-operative Bank of Kenya Limited P. O. Box 321 – 00204, Athi River</p> <p>Standard Chartered Bank Uganda Limited 5 Speke Road P. O. Box 711, Kampala</p> <p>KCB Bank Uganda Limited 6th Street Industrial Area P. O. Box 28568 Kampala</p>
PRINCIPAL AUDITOR	<p>The Auditor General Anniversary Towers P. O. Box 30084 – 00100 Nairobi</p>	
DELEGATED AUDITOR	<p>PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/ Chiromo Road, Westlands P O Box 43963 – 00100, Nairobi</p>	

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 30 June 2022, and to welcome all our esteemed and loyal shareholders to the 90th Annual General Meeting of the East African Portland Cement Plc.

Economic Outlook

A tentative recovery in 2021 was followed by increasingly gloomy developments in 2022 as risks began to materialize. The second half of the reporting period saw the global economy affected by the Ukraine – Russia conflict that led to contraction of global output whose effects on commodity markets, supply chains, inflation, and financial conditions have steepened the slowdown in global growth. However, resumption of economic activities in a number of sectors that support the construction industry which were majorly affected by the Covid-19 pandemic, coupled with improved returns in manufacturing and transport sectors significantly supported the GDP growth rebound in the year.

Cement Market and Competition

The local cement market faced a high demand and low supply situation owed to the fact that the international clinker market was still reeling from the effects of disruptions to clinker supply chains that were precipitated by the Covid-19 epidemic and the Russia - Ukraine conflict that caused a surge in the transportation of this key ingredient in the manufacture of cement. However, the reporting period saw monthly cement production in the country reach an all-time high of 911,250 tonnes in March 2022. This was met by increased consumption attributed to increased demand for cement in the private and public projects space. Entrance of new players in the market over the years and increase in capacity by existing players has led to a declined market share but the company has embarked on aggressive marketing and implemented market regeneration strategies aimed at achieving a 20% minimum market share in the medium term.

Performance

The 89th year of operation saw the business experience a general drop in performance which was mainly attributed to the downward trend in the global economy. Energy costs in Kenya also significantly went up during the period and this attributed to the trend in performance taking into account that a large chunk in the cost of cement production is attributed to energy. During the reporting period, production reduced by 24% as a result of an unstable plant which experienced frequent breakdowns. However, with the recent replacement of the weak portion of the Kiln Shell, we expect production to be stabilized. Sales during the period also reduced by 22% majorly because of product unavailability. The business however continues to mine from its brand equity and rich history, with the flagship brand Blue Triangle Cement being a preferred brand in the country. We have embarked on a vigorous market regeneration strategy to ensure that we regain the lost market share as soon as possible. Production costs and other expenses reduced significantly by 20% and 51% respectively during the period.

Dividend

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

Our Focus

The focus of the Board will remain singular; to steer the Company back to sustainable profitability. Towards this end, a multi-pronged approach has been adopted that includes:

- i) A five year Strategic Plan 2022 – 2027 is now in place.
- ii) Capacity enhancement to increase cement production capacity. Already part of the kiln that was hindering optimal clinker production has been replaced and positive results in our clinkering line are being witnessed. Increased milling capacity is also a key pillar of the 5-Year Strategic Plan in Place.
- iii) Cost reduction in all areas of operations, including increasing production efficiencies and reducing administrative overheads.
- iv) Reduction of existing debt has already been initiated with the settlement of the KCB loan commencing during the period and expected to be completed shortly.
- v) Partnership with the Government and other stakeholders in delivering housing and infrastructure requirement.

- vi) Sourcing for funds for plant modernization has been initiated through disposal of idle land especially to the squatters that had encroached the land. The Board aims to see this process completed successfully.

Corporate Strategy

The Company has embarked on implementation of its 5-Year Strategic Plan that aims to turnaround its fortunes. The Strategy, which has already been approved by the Board of Directors, is pegged on five main pillars namely:

- 1) Operational Excellence
- 2) Market Regeneration and Customer Centricism
- 3) Financial Sustainability
- 4) Productive Competent and Engaged Staff
- 5) A Better Planet

The Strategy will be implemented in two phases the first one being the 'New Dawn' Phase expected to take 18 Months and the second phase will be "Grow and Sustain" Phase that will take 3.5 Years. With full implementation of the strategy, we expect to return the company firmly on a profitability path and be able to give value for money to all our shareholders. Among other purposes, the strategy shall serve the following objectives:

- i) Serve as the guide for EAPC-PLC with all key institutional initiatives being aligned to the strategy.
- ii) An abridged version of the strategy shall be developed as the mantra for the organization.
- iii) Help in resource planning and allocation. Given the nuances in and around EAPC-PLC, a phased execution approach has been proposed. Under this approach, the first eighteen months shall be used to transform EAPC-PLC while the rest of the strategic period shall be used to stabilize, grow and consolidate the Company performance.
- iv) Assist in development of Key Performance Indicators (KPI) for all employees.

Financing Strategy

Balance Sheet restructuring continues to be one of the Board's priorities and together with Management, we are exploring all avenues to ensure that the Company goes back to financial independence. The recently concluded Kiln Shell Replacement is one of the strategies aimed at increasing our revenues by ensuring continuous product availability in the market. Market Regeneration Campaigns have been hastened to help regain back our market share across the country. We are also exploring export options to tap into the East African Market as another measure to increase our revenues. The Company recently began the process of disposing off idle land in Mavoko, Machakos County as a way of raising more finances. All these options are periodically appraised through the Board Finance, Technical and Strategy committee.

Corporate Governance

The Company has continued to improve on its governance structures to ensure it plays its proper role as a responsible corporate citizen to its stakeholders. The Board has continued to ensure proper and elaborate governance practices are in place. The Board is served by active board committees each with properly set terms of reference. All the directors, except the Managing Director, are independent but meet regularly with the senior management to review corporate strategy. The Board Charter in place contributes in guiding the interaction between the Board and other stakeholders. All employees sign a code of conduct that guides the interaction amongst employees themselves and interaction with the other stakeholders.

Outlook

Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6 % in 2022 and 2023. This is 0.8% and 0.2% points lower for 2022 and 2023 than projected in January 2022. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term. This notwithstanding, the

economy continues to build momentum as the devolved county governments continue to implement development programs. The ongoing government infrastructure projects will be supplemented by the current boom in real estate development in the country. Investments in the construction industry are likely to remain robust.

The Board

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

Appreciation

On behalf of the Board of Directors, I would like to extend my sincere thanks to the shareholders for their continued contribution and support; the Board for its dedication and visionary leadership; to the National Government for its support and guidance; and to Management and all Staff of EAPC PLC for their tireless dedication to implement the company's business plan. I also extend my gratitude to all our business partners and customers for their continued loyalty and support to the Blue Triangle Cement brand.

Yours sincerely,



Edwin M. Kinyua, EBS
Chairman of the Board of Directors

Business Performance

It is a privilege to write to you to report on the various strategies we are implementing to turn around the fortunes of East African Portland Cement Plc. Though we are facing a time of various challenges, both internal and external, I am very confident that they are surmountable. In this reporting period, these challenges included an aged plant that continued to constrain the Company's capacity to maintain optimum production, as well as a diminished market share caused by our own inefficiencies as well as the cement industry undergoing a price war and intensified competition.

The reporting period's performance was adversely impacted by delayed proceeds from balance sheet restructuring, buoyed by uncertainty in the run up to the general elections, leading to insufficient throughput. These factors led to a reduction of 24% in the amount of cement produced during the period largely mirrored in the 22% dip in sales volumes. This in turn affected our earnings that dipped by 1%.

Corporate Strategy

The Company is in the process of implementing its five year strategic plan that was approved by the Board of Directors. This initiative is premised on firming the regeneration of the company to a profitable concern. Through the strategic plan the company hopes to among other things:

- Delight its customers through quality cement products and services
- Grow the business in the Region
- Achieve operational excellence and innovation
- Develop talent that would enhance market competitiveness.

Financial Strategy

In order to attain a turnover level that is sufficient to cover fixed costs and generate value for the shareholders, the Company seeks to ensure that its core function of producing and selling cement and related products is well executed. This will be achieved by ensuring continuous plant availability for optimal production. The company has already started implementing planned strategies by replacing the weak portion of the Kiln Shell that caused frequent downtimes. Disposal of Idle Company Assets like mined pieces of land has also been identified as a strategy for raising working capital. The company is in the process of engaging squatters who have invaded its land in Mavoko, Machakos County with a view of solving the outstanding issue amicably.

Effectiveness and Efficiency

The Company continues to undertake programs that ensure it remains efficient and competitive in the carrying out of its activities. We will continue to reorganize for better effectiveness in the coming year and improve on our efficiency within the business so that overheads are kept under control whilst good governance and compliance will remain uncompromised. Investments aimed at renewing the plant and making it more reliable, efficient and improve production output are among our short-term strategies

Quality Management Process

Customer satisfaction remains the highest priority for the Company. This will be achieved in part through manufacture of high quality products and improve Truck turnaround Time (TAT). To ensure this, we have put in place strict measures to ensure that all inputs are of the required quality and that all steps of the cement manufacturing process are closely monitored by competent experts. Complying with the requirements of ISO 9001:2015 ensures that the organization not only retains its status as an ISO 9015:2015 certified organization but that continuous improvement, research and development and ongoing review of processes is systematically done to ensure that our processes and strategies remain current and relevant in the evolving business environment.

Advocacy for a Better Planet

In the 5-Year Strategic Plan, the Company has identified a better planet as one of its five pillars. Over time, many corporates especially in the manufacturing sector have contributed to global climate change by emissions which increase levels of atmospheric carbon dioxide. EAPC-PLC, being in one of these industries has identified Environment, Social and Governance Goals as an initiative in contributing to a better planet.

East African Portland Cement Plc has continually demonstrated its commitment to improve its environmental performance through adoption of best manufacturing practices, implementing international standards of environmental management, establishing policies and programmes for conducting business operations in an environmentally friendly manner. During the reporting period, as part of its quest to conserve the environment, the company actively participated in campaigns aimed at increasing the country's forest cover by donating seedlings and planting trees. The Company is also compliant to ISO 14001:2015 (Environment Management Systems) that seeks to ensure that despite operating in a competitive environment, we uphold environmental sustainability in all our operations.

Outlook

The year has been characterised by protracted electioneering wrangles coupled with negative sentiments that are not necessarily geared towards a conducive business environment. This ended up depressing economic activities as major investment decisions ended up being shelved until after the elections. Most of the second half of the reporting period was also affected by a harsh international business environment mainly owed to the invasion of Ukraine by Russia that saw international prices of key inputs and energy affected. However, with the elections having been conducted peacefully, investor confidence in the country is expected to increase leading to a boom in the construction industry. State projects (both National and in devolved units) as well as residential and commercial demand is expected to drive the cement market in the near future as the country continues to improve its infrastructure.

Thank you



Oliver Mwandigha Kirubai
Managing Director

Introduction

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

Compliance statement

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

Responsibilities of the Board

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

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

The Board is made up of the Chairman, Managing Director and five 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)	AGM (89 th)
Chairman – Edwin M. Kinyua, EBS	4	8	1
Managing Director	4	8	1
CS Treasury or his alternate	4	8	1
PS Ministry of Industry, Trade & Enterprise development	4	7	1
NSSF	4	6	1
Kungu Gatabaki	4	8	1
Professor Sarone ole Sena	4	8	1
Company Secretary	4	8	1

Thirteen board meetings were held during the year.

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

Delegation of Authority

Board Sub Committees

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

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

Details of these committees and membership are shown below.

Audit Committee

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

The members of the Committee are:

Director

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

The Committee held three meetings during the year.

Board Technical Committee

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

The members of the Committee are

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

Board Human Resources & Remuneration Committee

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

The Members of the Committee are:

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

Finance Committee

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

Kungu Gatabaki CS, Treasury PS Ministry of Industry, Trade & Enterprise development Dr. Anthony Omerikwa Managing Director Florence Mitey	Chairman Representing NSSF 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
Chairman – Edwin M. Kinyua, EBS	-	-	-
CS Treasury / Alternate	3	2	3
PS Ministry of Industry, Trade and Enterprise development	2	2	3
NSSF	3	2	3
Managing Director	3	2	3
Kungu Gatabaki	3	2	-
Prof. Sarone ole Sena	3	-	3
Company Secretary	3	2	3

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 34(vi)) 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. In particular, the Company is in the process of disposal of 1,907 acres of land classified as investment property expected to yield KES 10 Billion coupled with retirement of corporate debt of KES 1.9 Billion from a key lender. These measures, coupled with retirement of KCB debt expected to be concluded within the first quarter of FY 2022/23, will significantly impact working capital, from a deficit of KES 12 Billion to a surplus of KES 400 Million. Consequently, the Board has reviewed the projected 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.

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 in 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 2021/2022 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 briefing. Shareholders are also advised of important events that impact the Company's operation.

Corporate Social Responsibility

The Company contributed to CSR through the improvement of education, health, water and environmental conservation. All activities geared towards benefiting the communities are directly identified by the communities themselves through local committees.

Procurement policies

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

Whistle blowing policy

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

The directors submit their report together with the audited financial statements which disclose the state of affairs of East African Portland Cement PLC (the "Company") and its subsidiaries together the (the "Group") for the year ended 30 June 2022.

BUSINESS REVIEW

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

The principal activity of the Company's wholly owned subsidiary, East African Portland Cement Uganda Limited, is the sale of cement purchased from the parent company. As a result of the parent Company's redesigned route to market, the entity is largely dormant.

Financial Performance

Several factors throughout the year affected the performance of the business adversely. Delays in realization of proceeds from sale of land coupled with unavailability of hard currency hampered plant refurbishment efforts. The challenges led to a 24% drop in sales volumes resulting in revenue of Shs 2.1 billion (2021: 2.8 billion) with an 18% reduction in cost of sales closing at Shs 2.9 billion (Shs 3.6 billion). That notwithstanding, the Company implemented a phased approach to plant refurbishment with kiln shell replacement currently ongoing with a target completion date of September 2022. Cost containment measures led to a 43% reduction in loss from operations. The Group reported a profit for the year of Shs 541 million (2021: Shs 1.9 billion) as a result of gains in investment property of Shs 2.5 billion and narrowed its operating loss by 43% to close at Shs 1.8 billion (2021: loss of Shs 3.2 billion) as cost containment efforts continue to bear fruit. The operating loss is mainly driven by insufficient working capital to support throughput leading to inadequate absorption of fixed costs. However, this was netted off by a reduction in employee related costs as a result of restructuring plans implemented in the previous year. In order to hasten proceeds from sale of land, the Board approved a regularization plan of LR 8784/144, 8784/145 & 8784/653 totalling 907 acres which had been heavily populated with squatters. This plan ensures that the local community has first right of purchase with expected proceeds of KES 5 Billion payable within the next three years. Furthermore, the Company has also subdivided 1000 acres of the adjacent property LR 10424 into 50 acre plots which are on sale with expected proceeds totalling to approximately KES 5 Billion.

Risk Management

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

The Environment

The Group is actively 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:

	2022	2021
Permanent	60	59
Contract	438	442
Total	498	501

Corporate social responsibility

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

Outlook

Market outlook in terms of cement demand in the short run remains depressed with current market data dampening prospects of expected medium term demand. This is driven by a difficult operating environment occasioned by declining consumer purchasing power against the backdrop of high inflation and election related slow down. The company is aggressively marketing its land to prospective buyers, having successfully subdivided 1,000 acres into 20 parcels for ease of disposal. Proceeds from the sale of investment property are earmarked for plant refurbishment and working capital support.

Investment property

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

Key performance indicators

The table below highlights some of the key performance indicators;

Key performance ratios	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Gross loss margin	36%	30%	36%	30%
Operating loss margin	86%	116%	86%	116%
Net profit margin	25%	68%	25%	68%
Return on assets	2%	5%	2%	5%
Return on equity	3%	9%	3%	9%

DIVIDENDS

The Group's and Company's profit after tax for the year of Shs 541,585,000 (2021: Shs 1,887,580,000) and Shs 541,585,000 (2021: Shs 1,887,846,000) respectively has been added to retained earnings. The directors do not recommend the payment of a dividend in respect of the current year (2021: Shs nil).

DIRECTORS

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

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

TERMS OF APPOINTMENT OF AUDITOR

The Auditor General is responsible for the statutory audit of the financial statements of East African Portland Cement Plc in accordance with Section 23 of the Public Audit Act, 2015 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf. PricewaterhouseCoopers LLP was nominated by the Auditor General to carry out the audit of East African Portland Cement Plc for the year ended 30 June 2022.

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

On behalf of the Board



Director

Date: 25th October 2022

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. 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 expense allowances are paid in the course of the year. The Non-Executive Directors do not receive any performance-based remuneration. No pension contributions are payable on their emoluments. The Group reimburses travel and accommodation expenses related to attendance at board meetings.

Directors' shareholding

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

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

Directors Contract of service

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

DIRECTORS CONTRACT OF SERVICE		
Director	Start of contract	End of Contract
Edwin M: Kinyua, EBS - Chairman	02 December 2021	02 December 2024
Kungu Gatabaki	Shareholder rep	Shareholder rep
Prof. Sarone Ole Sena	Shareholder rep	Shareholder rep
Amb. Ukur Yattani	Shareholder rep	Shareholder rep
National Social Security Fund	Shareholder rep	Shareholder rep
Amb. Peter Kirimi Kaberia	Shareholder rep	Shareholder rep

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

Information subject to audit

The following table shows the remuneration for the executive directors, chairman and non-executive directors in respect of qualifying services for the year ended 30 June 2022 together with the comparative figures for 2021. The aggregate directors' emoluments for Group and Company are shown on below:

Year ended 30 June 2022

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Post Employment Benefits	Estimated Value of Non-cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Edwin M. Kinyua, EBS	-	300	-	6,036	-	-	6,336
2	Oliver Kirubai	12,167	-	-	-	3,772	-	15,938
3	Kungu Gatabaki	-	160	-	2,747	-	-	2,907
4	Dr. Antony Omerikwa	-	160	-	1,157	-	-	1,317
5	Prof. Sarone Ole Sena	-	160	-	2,506	-	-	2,666
6	Edward Wamweya	-	160	-	1,606	-	-	1,766
7	Nicholas Kamau	-	160	-	220	-	-	380
8	Patricia Aruwa	-	-	-	431	-	-	431
9	Nancy Muya	-	-	-	1,231	-	-	1,231
	Totals	12,167	1,100	-	15,934	3,772	-	32,972

Year ended 30 June 2021

S/N	Name	Salary	Fees	Bonuses	Expenses Allowances	Loss of Office/Termination	Estimated Value of Non-cash Benefits	Total
		Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
1	Edwin M. Kinyua, EBS	-	300	-	4,061	-	-	4,361
2	Kungu Gatabaki	-	160	-	2,057	-	-	2,217
3	Dr. Antony Omerikwa	-	160	-	814	-	-	974
4	Prof. Sarone Ole Sena	-	160	-	2,223	-	-	2,383
5	Edward Wamweya	-	160	-	1,114	-	-	1,274
6	Nicholas Kamau	-	160	-	900	-	-	1,060
7	Patricia Aruwa	-	-	-	129	-	-	129
8	Jane Joram	-	-	-	1,029	-	-	1,029
9	Gerald Mwangi	-	-	-	43	-	-	43
	Totals	-	1,100	-	12,370	-	-	13,470

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Group is a party, whereby directors might get benefits by means of acquisition of the Group's shares. Information on aggregate of emoluments and fees paid to directors are disclosed in Note 34(vi) of the financial statements.

On behalf of the Board

Company Secretary

Date: 20th October 2022



The 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. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

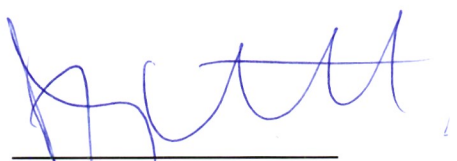
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

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

Having assessed the 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 20th October 2022 and signed on its behalf by:



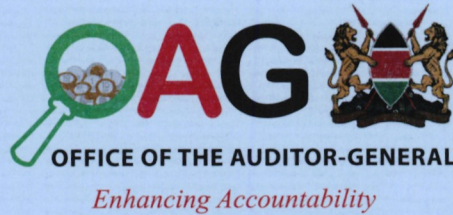
Edwin M. Kinyua, EBS
Chairman



Oliver Mwandigha Kirubai
Managing Director

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and company financial statements of East African Portland Cement PLC set out on pages 23 to 74, which comprise of the Group and the Company's statement of financial position as at 30 June, 2022, and the Group and the Company's statement of profit or loss and other comprehensive income, statement of

Report of the Auditor-General on East African Portland Cement PLC for the year ended 30 June, 2022

changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East African Portland Cement PLC as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

I draw attention to Note 2(a) in the financial statements, which indicates that the Group and Company recorded a net profit for the year of Kshs.541,585,000 (2021: Kshs.1,887,580,000) and Kshs.541,585,000 (2021: Kshs.1,887,846,000) respectively during the year ended 30 June, 2022. Further, the Group's and Company's current liabilities exceeded the current assets by Kshs.12,214,962,000 (2021: Kshs.10,737,759,000) and Kshs.12,240,019,000 (2021: Kshs.10,777,244,000), respectively an indication of negative working capital for the Company.

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

Further, the Company had significant litigations and claims against it which, if successful, may result in claims that are unlikely to be settled given the Company's current financial position. Details of the significant claims include employee related claims arising from unpaid salaries based on Collective Bargaining Agreement (CBA) terms with an estimated total exposure of Kshs.1.5 billion, debt claims by suppliers for unpaid bills for

services rendered and goods delivered totalling to Kshs.310 million, claims arising from disputed deliveries and breach of distribution contracts and termination of supplier contracts totalling Kshs.196 million. Most of these claims have been provided for in the financial statements.

In addition, the Company has been unable to settle amounts due to statutory authorities which include Pay As You Earn (PAYE) of Kshs.1,700,000,000, Value Added Tax (VAT) balance of Kshs.431,000,000 and pension liabilities of Kshs.107,000,000 being principal, penalties and interests.

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

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

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How the Audit Addressed the Key Audit Matter
<p>Fair Valuation of Investment Properties</p> <p>As disclosed in Note 18 to the financial statements, the Group's and Company's investment properties consist of investment in land carried at fair value. The Management engaged Independent Professional Valuer to determine the fair value as at 30 June, 2022. The valuer determined the open market value using recent property transactions prices within the vicinity of the properties.</p> <p>Further, the Directors have exercised judgement in applying a haircut on the valuation amounts based on the recent comparable sales made by the Group.</p>	<p>I have performed the following audit procedures;</p> <ul style="list-style-type: none"> • Assessed competency, capabilities and objectivity of the independent valuer. • Assessed the appropriateness of the methodology used by the independent valuer and its consistency with the International Financial Reporting Standards (IFRS). • Assessed any judgements exercised by management in

<p>The carrying value of the investment of property as at 30 June, 2022 is Kshs.27,372,448,000 (2021: Kshs.25,271,720,000)</p>	<p>determining the fair value including any overlays applied.</p> <ul style="list-style-type: none"> • Verified the ownership of the property and assessed Management's judgement on the appropriateness of the classification of the encroached land as investment property. • Reviewed Management's estimate of eviction costs for reasonableness. • Reviewed the adequacy of the disclosures in Note 18 to the financial statements.
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Other Matter

1. Loss in Sale of Land

As previously reported, the Company entered into a consent to sell a parcel of land measuring 337 acres to be excised from LR. No.8784 in Athi River to a local buyer at a price of Kshs.2,200,000 per acre. However, the buyer defaulted on the provisions of the consent by not providing an acceptable bank security within the period of consent. The case was taken to court after which the parties settled at a renegotiated price of Kshs.4,500,000 per acre for 100 acres on 14 April, 2022. The Company revalued the investment properties to a carrying value of Kshs.5,475,190 per acre. The renegotiated price of Kshs.4,500,000 per acre resulted to an impairment loss of Kshs.97,519,000.

2. Land Invaded by Informal Settlers

As previous reported, the Company's investment property under LR No. 8784/4 which has since been subdivided into four (4) parcels of land is almost 70% invaded by informal settlers while another parcel of land under LR No.10424 is also partially occupied by informal settlers. However, the Company continued to pursue several avenues to reclaim the occupied properties where an estimated cost of evicting the informal settlers amounting to Kshs.425,870,000 has been adjusted in the financial statements in arriving at the fair value of investment properties.

Other Information

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Tax Matters

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

As previously reported, the Company had not remitted PAYE dues amounting to Kshs.2,456,000,000 (2021: Kshs.2,200,000,000) in principal, penalties and interests as at 30 June, 2022. This is contrary to Sections 3(2)(a)(ii), 5 and 37 of the Income Tax Act, Cap 470 which requires employers to deduct PAYE at source and remit the same to the tax authorities before the 9th day of the subsequent month of pay. As a result, the Company is likely to suffer additional tax penalties and interest.

1.2 Non-Remittance of Value Added Tax (VAT)

As previously reported, the Company had not remitted VAT totalling to Kshs.398,000,000 (2021: Kshs.656,000,000) in principal and penalties and interest as at 30 June, 2022. This was contrary to Section 13(3) of the Value Added Tax Act Cap 476 which requires entities to remit Value Added Tax (VAT) payable to tax authorities before the 20th day of the subsequent month of collection.

1.3 Kenya Revenue Authority Tax Audit

As disclosed in Note 30(i) to the financial statements, Kenya Revenue Authority (KRA) carried out an audit on the Company covering corporate tax, employees' taxes, withholding tax and VAT for the period from 2005 to 2008. KRA raised an assessment of Kshs.2.5 billion out of which an amount of Kshs.1.7 billion had been resolved with KRA. The Company paid an amount of Kshs.122,000,000 and appealed against a further Kshs.473,000,000 through the local tax committee which subsequently ruled in favour of the Company. KRA later appealed in the High Court against the local committee ruling. The substantive appeal to the High Court had however not been filed by KRA. The Directors are of the view that no additional liabilities may arise from this matter, however, if the High Court rules in favour of the KRA, the Company may incur further costs in settlement which is recognized as a contingent liability.

In the circumstances, the Management was in breach of the law.

2. Non-Remittance of Employees' Pension Contributions

As previously reported, the Company had accrued pensions balance of Kshs.110,000,000, in principal, penalties and interest as at 30 June, 2022. The unremitted contributions date back to August, 2018. This is contrary to Sections 53 and 53A of the Retirement Benefits Act, 1997 which requires entities to remit contributions by the employee's timely, failure to which, the entities will be penalized. The Company is therefore exposed to the consequences of non-compliance with the retirement benefits law through penalties and non-payment of retirement benefits to its employees upon retirement.

In the circumstances, the Management was in breach of the law.

3. Non-Remittance of Mining Levies

As previously reported, the Company had outstanding remittances of mining levy amounting to Kshs.407,000,000 as at 30 June, 2022. This is contrary to Legal Notice No. 222 of the Mining Act (Cap 306) dated 18 December, 2013 which requires cement producers to pay a cement mineral levy at the rate of Kshs.140 per ton of cement with effect from 01 January, 2014. The Company is therefore exposed to the consequences of non-compliance with the mining regulations.

In the circumstances, the Management was in breach of the law.

4. Non-Remittance of Unclaimed Dividends

As previously reported, the statement of financial position reflects accrued dividends payable amounting to Kshs.102,000,000 as at 30 June, 2022. Part of this amount has been outstanding for more than three (3) years exposing the Company to increased penalties. This is contrary to Section 20 of the Unclaimed Financial Assets Act, 2011 which requires entities to remit unclaimed assets, including but not limited to ownership interests (shares and dividends), with a period of abandonment of three (3) years.

In the circumstances, the Management was in breach of the law.

5. Lack of Executed Agreement for Government Loan

As previously reported, and as disclosed in Note 26 to the financial statements, the statement of financial position reflects Government debt balance of Kshs.1,942,945,000 payable to the Government of Kenya. The loan amount has accumulated from the interest and principal repayment made on Japanese - OECT loan by the Government of Kenya on behalf of the Company as the guarantor. However, the loan agreement between the Company and the Government indicating the terms of the loan and the agreed amount was not provided for audit verification. It was not therefore, possible to ascertain the terms of the loan or the actual outstanding loan amount due to the Government as at 30 June, 2022.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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 13 to 15 is consistent with the financial statements.
- (ii) In my opinion, the auditable part of the Directors' remuneration report on pages 16 to 17 has been properly prepared in accordance with the Companies Act, 2015.

Responsibilities of the Management and the Board of Directors

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as Management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the Group and the Company's 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Group and the Company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities within the Group to express an opinion on the Group and the Company's financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

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


CPA Nancy Gathungu CBS
AUDITOR-GENERAL

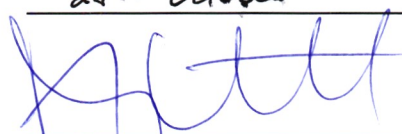
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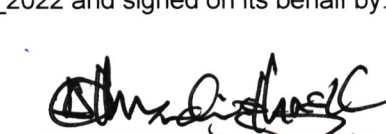
25 October, 2022

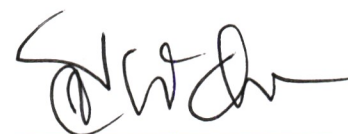
Group and Company statement of financial position

	Notes	Group At 30 June		Company At 30 June	
		2022	2021	2022	2021
		Shs'000	Shs'000	Shs'000	Shs'000
ASSETS					
Non-current assets					
Investment properties	18	27,372,448	25,271,720	27,372,448	25,271,720
Property, plant and equipment	16	6,397,407	6,867,262	6,397,387	6,867,242
Right-of-use assets	33(b)	40,743	58,687	40,743	58,687
Intangible assets	20	5,270	-	5,270	-
Investment in subsidiary	19	-	-	2,500	2,500
		<u>33,815,868</u>	<u>32,197,669</u>	<u>33,818,348</u>	<u>32,200,149</u>
Current assets					
Trade and other receivables	23	1,036,162	1,287,270	1,017,025	1,255,923
Inventories	22	924,084	1,084,314	926,571	1,084,314
Cash and cash equivalents	21	38,746	31,622	27,411	20,649
Current income tax	14	34,613	40,235	34,761	40,379
		<u>2,033,605</u>	<u>2,443,441</u>	<u>2,005,768</u>	<u>2,401,265</u>
TOTAL ASSETS		<u>35,849,473</u>	<u>34,641,110</u>	<u>35,824,116</u>	<u>34,601,414</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	24 (a)	450,000	450,000	450,000	450,000
Share premium	24 (b)	648,000	648,000	648,000	648,000
Asset revaluation reserves	24 (c)	1,031,948	1,282,468	1,031,948	1,282,468
Retained earnings		19,149,608	18,357,503	19,149,731	18,357,626
Other reserves	24 (d)	301,735	274,153	279,035	237,025
TOTAL EQUITY		<u>21,581,291</u>	<u>21,012,124</u>	<u>21,558,714</u>	<u>20,975,119</u>
Non-current liabilities					
Post-employment benefits obligation	25	-	427,341	-	427,341
Lease liabilities	33(a)	19,615	20,445	19,615	20,445
		<u>19,615</u>	<u>447,786</u>	<u>19,615</u>	<u>447,786</u>
Current liabilities					
Borrowings	26	3,807,495	3,679,415	3,807,495	3,679,415
Trade and other payables	28	9,793,965	9,361,564	9,791,185	9,358,873
Post-employment benefits obligation	25	521,181	-	521,181	-
Dividends payable	29	101,680	101,680	101,680	101,680
Lease liabilities	33(a)	24,246	38,541	24,246	38,541
		<u>14,248,567</u>	<u>13,181,200</u>	<u>14,245,787</u>	<u>13,178,509</u>
TOTAL EQUITY AND LIABILITIES		<u>35,849,473</u>	<u>34,641,110</u>	<u>35,824,116</u>	<u>34,601,414</u>

The financial statements on pages 23 to 74 were approved for issue by the board of directors on 27th October 2022 and signed on its behalf by:


Edwin M. Kinyua, EBS
Chairman


Oliver Mwandigha Kirubai
Managing Director


Mohamed Osman Adan
Head of Finance
ICPAK No: 16416

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

	Notes	Group Year ended 30 June		Company Year ended 30 June	
		2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Revenue	6	2,143,279	2,762,748	2,143,279	2,762,748
Cost of sales	7	(2,925,509)	(3,583,282)	(2,925,509)	(3,583,282)
Gross loss		(782,230)	(820,534)	(782,230)	(820,534)
Other operating income	8	74,172	74,843	74,172	74,843
Selling and distribution	9	(32,783)	(97,560)	(32,783)	(97,560)
Administration and establishment	10	(743,715)	(888,400)	(743,715)	(888,134)
Other operating expenses	11(a)	(409,931)	(1,484,950)	(409,931)	(1,484,950)
Expected credit loss allowance movement	11(b)	54,550	4,235	54,550	4,235
Loss from operations		(1,839,937)	(3,212,366)	(1,839,937)	(3,212,100)
Finance income	12	-	149	-	149
Finance costs	12	(100,852)	(835,694)	(100,852)	(835,694)
Fair value gain investment property	18	2,469,988	5,783,847	2,469,988	5,783,847
Profit before tax		529,199	1,735,936	529,199	1,736,202
Income tax credit	14	12,386	151,644	12,386	151,644
Profit for the year		541,585	1,887,580	541,585	1,887,846
Other comprehensive income for the year					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Remeasurement of post-employment benefit obligations, net of tax	25	42,010	106,471	42,010	106,471
Revaluation surplus on property, plant and equipment, net of tax		-	264,274	-	264,274
<i>Items that may be subsequently reclassified to profit or loss</i>					
Exchange differences on translation of foreign operation, net of tax		(14,428)	659	-	-
Total comprehensive income for the year		569,167	2,258,984	583,595	2,258,591
Earnings per share					
- Basic and diluted (Shs)	15	6.02	20.97	6.02	20.98

Group statement of changes in equity

	Share Capital	Share Premium	Asset revaluation reserves	Retained earnings	Other reserves	Total
Year ended 30 June 2021	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	450,000	648,000	1,181,352	16,306,765	167,023	18,753,140
Transfer of excess depreciation	-	-	(233,083)	233,083	-	-
Deferred tax on excess depreciation	-	-	69,925	(69,925)	-	-
Profit for the year	-	-	-	1,887,580	-	1,887,580
Other comprehensive income	-	-	264,274	-	107,130	371,404
Total comprehensive income for the year	-	-	264,274	1,887,580	107,130	2,258,984
At end of year	450,000	648,000	1,282,468	18,357,503	274,153	21,012,124

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

Company statement of changes in equity

	Share Capital	Share Premium	Asset revaluation reserves	Retained earnings	Other reserves	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2021						
At start of year	450,000	648,000	1,181,352	16,306,622	130,554	18,716,528
Transfer of excess depreciation	-	-	(233,083)	233,083	-	-
Deferred tax on excess depreciation	-	-	69,925	(69,925)	-	-
Profit for the year	-	-	-	1,887,846	-	1,887,846
Other comprehensive income	-	-	264,274	-	106,471	370,745
Total comprehensive income for the year	-	-	264,274	1,887,846	106,471	2,258,591
At end of year	450,000	648,000	1,282,468	18,357,626	237,025	20,975,119
Year ended 30 June 2022						
At start of year	450,000	648,000	1,282,468	18,357,626	237,025	20,975,119
Transfer of excess depreciation	-	-	(357,886)	357,886	-	-
Deferred tax on excess depreciation	-	-	107,366	(107,366)	-	-
Profit for the year	-	-	-	541,585	-	541,585
Other comprehensive income	-	-	-	-	42,010	42,010
Total comprehensive income for the year	-	-	-	541,585	42,010	583,595
At end of year	450,000	648,000	1,031,948	19,149,731	279,035	21,558,714

Group and Company statement of cash flows

	Notes	Group Year ended 30 June		Company Year ended 30 June	
		2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Cash flows from operating activities					
Net cash used in operations	32	(445,852)	(1,858,871)	(460,642)	(1,859,418)
Interest paid		(5,641)	(361,763)	(5,641)	(361,763)
Interest received		-	149	-	149
Income tax paid	14	-	(1,699)	-	(1,414)
Net cash used in operating activities		(451,493)	(2,222,184)	(466,283)	(2,222,446)
Cash flows from investing activities					
Purchase of property, plant and equipment	16	(29,579)	(96,562)	(29,579)	(96,562)
Purchase of Intangible assets	20	(6,726)	-	(6,726)	-
Proceeds from disposal of investment properties		369,260	6,600,000	369,260	6,600,000
Proceeds on sale of property, plant and equipment		92,802	-	92,802	-
Net cash generated from investing activities		425,757	6,503,438	425,757	6,503,438
Cash flows from financing activities					
Proceed from borrowings	26	60,823	184,182	60,823	184,182
Repayment of borrowings	26	-	(4,488,237)	-	(4,488,237)
Repayment of principal portion of lease liability	33	(15,125)	(27,760)	(15,125)	(27,760)
Net cash generated from / (used in) financing activities		45,698	(4,331,815)	45,698	(4,331,815)
Net increase / (decrease) in cash and cash equivalents		19,962	(50,561)	5,172	(50,823)
Movement in cash and cash equivalents					
Effects of exchange rate changes on the balance of cash		(14,428)	659	-	-
At start of year		31,622	81,524	20,649	71,472
Increase / (decrease)		19,962	(50,561)	5,172	(50,823)
At end of year	21	37,156	31,622	25,821	20,649

Notes

1 General information

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

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

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Going concern

The Group's and Company's profit after tax for the year of Shs 541,585,000 (2021: Shs 1,887,580,000) and Shs 541,585,000 (2021: Shs 1,887,846,000) respectively during the year ended 30 June 2022 and, as of that date, the Group's and Company's current liabilities exceeded the current assets by Shs 12,214,962,000 (2021: Shs 10,737,759,000) and Shs 12,240,019,000 (2021: Shs 10,777,244,000) respectively.

The Company defaulted on a loan from one of the key lenders in September 2019 and obtained approval from shareholders to dispose some of the idle land to retire the debt. 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.

The Company has significant litigations and claims against it which if successful, may result in claims that are unlikely to be settled, given the entity's current financial position. Details of the significant claims include employee related claims arising from unpaid salaries based on the CBA terms with an estimated total exposure of Shs 1.5 billion, debt claims by suppliers for unpaid bills for services rendered and /or goods delivered totalling Shs. 310 million and claims arising from disputed deliveries, breach of distribution contracts and termination of supplier contracts totalling to Shs. 196 million. 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 1.7 billion, VAT balances of Shs 431 million and pension balances of Shs 107 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 21,581,291,000 (2021: Shs 21,012,124,000) due to investment properties carried at fair value. The Board of Directors has purposed to extract value from disposal of part of the investment property to normalise its working capital. Therefore, there is enough room that guarantees the Group's ability to meet its obligations.

The directors remain confident that the Group and Company will remain a going concern over the next 12 months. In making this assessment the directors have considered in detail all pertinent facts as outlined below:

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

For the year ended 30 June 2022 the Board of Directors and Management took the following measures to address and mitigate the above conditions:

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Going concern (continued)

- c. Closure and settlement of some of the old debts through workable payment plans and negotiations.
- d. Pursue waiver of penalties and interest from lenders and other creditors.
- e. Recapitalize the business through sale of land. The Company has embarked on a regularization plan of LR 8784/144, 8784/145 & 8784/653 totaling 907 acres which had been heavily populated with squatters. This plan ensures that the local community has first right of purchase with expected proceeds of KES 5 billion. Furthermore, the Company has also subdivided 1000 acres of the adjacent property LR 10424 into 50-acre plots which are on sale with expected proceeds totaling to approximately KES 5 billion. These measures, coupled with retirement of KCB debt expected to be concluded within the first quarter of FY 2022/23, will significantly impact working capital, from a deficit of KES 12 billion to a surplus of KES 400 million.

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

For the year ending 30 June 2022, the following were the key sources of the uncertainties mentioned above:

1. Realization of proceeds from sale of land. Land disposals are, by the nature of the underlying asset, lengthy transactions. To this end, the Company subdivided 1,000 acres of LR 10424 to 50 acre land parcels to address general liquidity challenges in large land acquisitions. In order to hasten speed of realization of proceeds, the Company has engaged banks to provide financing for land acquisition by prospective buyers. Phased approach of plant refurbishment geared towards unlocking capacity, enhancing efficiency and improving the Company's cost structure is predicated on proceeds from sale of land mentioned above.
2. Achievement of significant cost reductions accruing from improved plant utilization and efficiency dependent on application of funds from sale of land.
3. Presence of sufficient markets and demand for the significantly higher forecasted volumes to be produced over the next 5 years (108% volume growth in first year and 13% volume growth on average thereafter)
4. Achievement of significant working capital improvements beyond current levels.
5. Successful conclusion of negotiations of debt repayment plans with lenders and other creditors

Directors have reviewed the projections as based on the above strategies and the medium-term plan and are confident that it is appropriate to prepare the financial statements on the going concern basis. Based on the implementation of the various turnaround initiatives outlined above, the directors consider it appropriate to prepare the financial statements on the going concern basis.

Changes in accounting policy and disclosures

i) New and amended standards adopted by the Group

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

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

Standard	Effective date	Executive summary
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (Published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (Published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

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

The Group has not applied the following new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1 July 2022, and the Directors do not plan to apply any of them until they become effective. They are not expected to have a significant impact on the financial statements.

Standard	Effective date	Executive summary
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts— Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

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

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.

(b) Consolidation

(i) Subsidiaries

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(ii) Subsidiaries (continued)

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

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

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

(iii) Disposal of subsidiaries

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

(c) Revenue recognition

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

Sale of cement and paving blocks

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

(d) Interest income

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

(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.

Notes (continued)

2 Summary of significant accounting policies(continued)

(f) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(g) Functional currency and translation of foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates.

The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

(iii) *Group companies*

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

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

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

(h) Property, plant and equipment

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

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

The Group policy is to professionally revalue property, plant and equipment at least once every three to five years. The property, plant and equipment were revalued as at 30 June 2021.

Notes (continued)

2 Summary of significant accounting policies(continued)

(h) Property, plant and equipment(continued)

Any surplus on revaluation is recognised in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(i) Capital work in progress

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

(ii) Depreciation

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

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

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(i) Leases

Leases under which the Group is the lessee

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

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

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

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

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

Leases under which the Group is the lessor

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

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

(j) Inventories

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(k) Intangible assets

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

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

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

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

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

(l) Investment properties

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(m) Financial instruments

Initial recognition

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

Classification

The Company classifies its financial instruments into the following categories:

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

All financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:

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

Initial measurement:

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

Subsequent measurement

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

Impairment

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

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(m) Financial instruments (continued)

Impairment (continued)

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

Presentation

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

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

Derecognition/write off

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

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

(n) Non-financial assets

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

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

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

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

(o) Share capital

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

Notes (continued)

2 Summary of significant accounting policies(continued)

(p) Segmental reporting

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

(q) Provisions

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

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

(r) 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

Notes (continued)

2 Summary of significant accounting policies(continued)

(t) 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).

(u) Comparatives

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

3 Financial risk management objectives and policies

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

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

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets.

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

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

For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. Full provisions are made for debts that are over 120 days.

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

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

Specific provisions are made for other receivable amounts.

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 the credit risk and/or to measure lifetime credit losses when there has been as significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the Company groups financial assets on the basis of shared credit risk characteristics, such as:

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

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

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

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery , that is, when the debtor has been placed under liquidation, or in the case of trade receivables, when the amounts that are overdue are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit and loss.

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

	Gross carrying amount Shs '000	Loss allowance Shs '000	Net carrying amount Shs '000
At 30 June 2022 – Group			
Trade receivables (Note 23)	412,800	(405,439)	7,361
Other receivables. (Note 23)	494,504	(430,571)	63,933
Amount due from related parties (Note 23 &34(iii))	916,141	(227,833)	688,308
Cash at bank balances (Note 21)	37,108	-	37,108
	<hr/>	<hr/>	<hr/>
	1,860,553	(1,063,843)	796,710
	<hr/>	<hr/>	<hr/>
At 30 June 2021 – Group			
Trade receivables (Note 23)	413,852	(367,351)	46,501
Other receivables (Note 23)	575,670	(430,571)	145,099
Amount due from related parties (Note 34(iii))	1,416,141	(320,471)	1,095,670
Cash at bank balances (Note 21)	28,393	-	28,393
	<hr/>	<hr/>	<hr/>
	2,434,056	(1,118,393)	1,315,663
	<hr/>	<hr/>	<hr/>

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

	Gross carrying amount Shs '000	Loss allowance Shs '000	Net carrying amount Shs '000
At 30 June 2022 - Company			
Trade receivables (Note 23)	793,522	(763,888)	29,634
Other receivables (Note 23)	453,094	(430,571)	22,523
Due from related parties (Note 34(iii))	916,141	(227,833)	688,308
Cash at bank balances (Note 21)	26,844	-	26,844
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	2,189,601	(1,422,292)	767,309
	<hr/>	<hr/>	<hr/>
At 30 June 2021 – Company			
Trade receivables (Note 23)	781,041	(725,799)	55,242
Other receivables (Note 23)	535,582	(430,571)	105,011
Due from related parties (Note 34(iii))	1,416,141	(320,471)	1,095,670
Cash at bank balances (Note 21)	17,420	-	17,420
	<hr/>	<hr/>	<hr/>
Exposure to credit risk	2,750,184	(1,476,841)	1,273,343
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Other receivable balances disclosed above excludes prepayments.

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

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

At 30 June 2022, the Company has used the simplified approach under IFRS 9 for measuring the expected credit loss for trade receivables.

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

	Gross carrying amount Shs'000	Loss Rates	Loss allowance Shs'000	Net carrying amount Shs'000
At 30 June 2022- Group				
<i>Aged debtor balances</i>				
Current	2,307	11%	(245)	2,062
16 to 30 days	3,074	13%	(410)	2,664
31 to 60 days	4,453	41%	(1,845)	2,608
61 to 90 days	22,948	89%	(20,475)	2,473
Over 90 days	380,018	100%	(382,464)	2,444
	<hr/>		<hr/>	<hr/>
	412,800		(405,439)	7,361
	<hr/>		<hr/>	<hr/>

Notes (continued)

3 Financial risk management objectives and policies(continued)

Credit risk (continued)

	Gross carrying amount Shs'000	Loss Rates	Loss allowance Shs'000	Net carrying amount Shs'000
At 30 June 2021- Group				
<i>Aged debtor balances</i>				
Current	17,350	68%	(11,723)	5,627
16 to 30 days	6,090	16%	(1,003)	5,087
31 to 60 days	5,467	57%	(3,111)	2,356
61 to 90 days	23,007	90%	(20,633)	2,374
Over 90 days	361,938	91%	(330,881)	31,058
	<hr/>		<hr/>	<hr/>
	488,415		(441,914)	46,501
	<hr/>		<hr/>	<hr/>
At 30 June 2022- Company				
<i>Aged debtor balances</i>				
Current	20,631	4%	(832)	19,799
16 to 30 days	8,761	25%	(2,321)	6,440
31 to 60 days	9,122	76%	(8,200)	922
61 to 90 days	9,296	65%	(8,327)	969
Over 90 days	745,712	96%	(744,208)	1,504
	<hr/>		<hr/>	<hr/>
	793,522		(763,888)	29,634
	<hr/>		<hr/>	<hr/>
At 30 June 2021- Company				
<i>Aged debtor balances</i>				
Current	11,610	4%	(426)	11,184
16 to 30 days	4,930	24%	(1,189)	3,741
31 to 60 days	5,133	72%	(3,688)	1,445
61 to 90 days	5,231	62%	(3,241)	1,990
Over 90 days	754,138	91%	(717,256)	36,882
	<hr/>		<hr/>	<hr/>
	781,042		(725,800)	55,242
	<hr/>		<hr/>	<hr/>

Notes (continued)

3 Financial risk management objectives and policies(continued)

Liquidity risk

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

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

Group

30 June 2022

	<3 months Shs'000	3 - 6 months Shs'000	6 – 12 months Shs'000	1 - 5 years Shs'000	Total Shs'000
Financial assets					
Cash and cash equivalents (Note 21)	38,746	-	-	-	38,746
Trade and other receivables (Note 23)	536,162	250,000	250,000	-	1,036,162
Financial liabilities					
Trade and other payables (Note 28)	(290,166)	(3,244,945)	(6,499,062)	-	(9,793,965)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(27,398)	(58,066)
Borrowings (undiscounted)	(3,972,201)	-	-	-	(3,972,201)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	(1,590)	-	-	-	(1,590)
Net financial liabilities	(3,699,272)	(2,764,960)	(6,360,964)	(27,398)	(12,852,594)

30 June 2021

	<3 months Shs'000	3 - 6 months Shs'000	6 – 12 months Shs'000	1 - 5 years Shs'000	Total Shs'000
Cash and cash equivalents (Note 21)	31,622	-	-	-	31,622
Trade and other receivables (Note 23)	537,270	250,000	500,000	-	1,287,270
Financial liabilities					
Trade and other payables (Note 28)	(267,115)	(2,891,040)	(6,203,409)	-	(9,361,564)
Lease liabilities (undiscounted)	(9,883)	(14,825)	(14,824)	(29,548)	(69,080)
Borrowings (undiscounted)	(3,826,025)	-	-	-	(3,826,025)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Net financial assets liabilities	(3,534,131)	(2,655,865)	(5,819,913)	(29,548)	(12,039,457)

Notes (continued)

3 Financial risk management objectives and policies(continued)

Liquidity risk (continued)

Company

30 June 2022

	<3 months Shs'000	3 - 6 months Shs'000	6 – 12 months Shs'000	1 - 5 years Shs'000	Total Shs'000
Financial assets					
Cash and cash equivalents (Note 21)	27,411	-	-	-	27,411
Trade and other receivables (Note 23)	517,025	250,000	250,000	-	1,017,025
Financial liabilities					
Trade and other payables (Note 28)	(287,385)	-	(6,499,063)	-	(9,791,185)
Lease liabilities (undiscounted)	(10,223)	(10,223)	(10,222)	(27,398)	(58,066)
Borrowings (undiscounted)	(3,972,201)	-	-	-	(3,972,201)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Bank overdraft (Note 26)	(1,590)	-	-	-	(1,590)
Net financial assets liabilities	(3,726,963)	(2,764,960)	(6,360,965)	(27,398)	(12,880,286)

30 June 2021

	<3 months	3 - 6 months	6 – 12 months	1 - 5 years	Total
Financial assets					
Cash and cash equivalents (Note 21)	20,649	-	-	-	20,649
Trade and other receivables (Note 23)	505,923	250,000	500,000	-	1,255,923
Financial liabilities					
Trade and other payables (Note 28)	(264,404)	(3,101,704)	(6,203,409)	-	(9,358,873)
Lease liabilities (undiscounted)	(9,883)	(14,825)	(14,824)	(29,548)	(69,080)
Borrowings (undiscounted)	(3,826,025)	-	(3,826,025)	-	(3,826,025)
Dividend payable (Note 29)	-	-	(101,680)	-	(101,680)
Net financial assets liabilities	(3,573,740)	(2,655,865)	(5,819,913)	(29,548)	(12,079,086)

Notes (continued)

3 Financial risk management objectives and policies(continued)

Market risk

(i) Foreign exchange risk

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

The forex exposure is as detailed below:

	Euros	US	Uganda	Total
	Shs'000	Dollars	Shillings	Shs'000
		Shs'000	Shs'000	
Assets				
Cash and bank balance	-	2,043	2,646	4,689
Receivables	-	1,075	-	1,075
Total assets	-	3,118	2,646	5,764
Liabilities				
Trade payables	-	14,487	2,926	17,413
Other liabilities	-	210,665	-	210,665
Total liabilities	-	225,152	2,926	228,078
Net exposure				
At 30 June 2021		222,034	280	222,314
Assets				
Cash and bank balance	-	4,922	2,646	7,568
Receivables	-	3,469	-	3,469
Total assets		8,391	2,646	11,037
Liabilities				
Trade payables	22	26,946	2,926	29,894
Other liabilities	-	240,208	-	240,208
Total liabilities	22	267,154	2,926	270,102
Net exposure				
At 30 June 2022	22	258,763	280	259,065

At 30 June 2022 if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 25,876,300 higher/lower (2021: 22,203,400), mainly as a result of US Dollar denominated trade payables and cash balances.

At 30 June 2022, if the Shilling had weakened/strengthened by 10% against the Ugandan Shilling with all other variables held constant, post-tax profit for the year would have been Shs 28,000 higher/lower (2021: Shs 28,000), mainly as a result of Ugandan Shilling denominated trade payables and bank balances.

Notes (continued)

3 Financial risk management objectives and policies(continued)

Market risk (continued)

(ii) Price risk

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

(iii) Interest rate risk

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

At 30 June 2022, 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 7,757,890 (2021: Shs 70,113,000) higher /lower.

Capital management

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

The gearing ratios at 30 June 2022 and 2021 are as follows:

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Equity(i)	21,581,291	21,012,124	22,558,714	20,975,119
Debt (ii) (Note 26)	3,805,905	3,679,415	3,805,905	3,679,415
Lease liabilities (Note 33)	43,861	58,986	43,861	58,986
Less cash and cash equivalents (Note 21)	(37,156)	(31,622)	(25,821)	(20,649)
Net debt	3,812,610	3,706,779	3,823,945	3,717,752
Gearing ratio	18%	18%	17%	18%

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

Notes (continued)

4 Critical accounting estimates and judgements

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

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

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

(i) Impairment allowance on financial assets

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

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

If the expected credit loss rates on the financial assets had increased /decreased by 100 basis points with all other variables held constant, profit for the year would have been Shs 7,938,987 (2021: Shs 2,529,622) higher /lower.

(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.

At 30 June 2022, if the deferred tax asset had been recognised with all other variables held constant, net profit for the year would have been Shs 273,276,000 (2021: Shs 1,219,807,000) higher.

(iii) Fair valuation of Investment properties

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

Management has made significant judgement in determining the determining the fair value of the investment property. The sensitivity disclosures have been disclosed under note 18.

Notes (continued)

4 Critical accounting estimates and judgements(continued)

(iv) Fair value of property, plant and equipment

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

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

(v) Impairment of non-financial assets

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

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

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

5 Segment information

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

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

	Group and Company	
	2022	2021
	Shs'000	Shs'000
The Group revenues are derived from sales in the following markets:		
Local market – Kenya	2,117,809	2,742,876
Regional market (East Africa)	25,470	19,872
	<hr/>	<hr/>
	2,143,279	2,762,748
	<hr/>	<hr/>

Notes (continued)

5 Segment information (continued)

Sales to the regional market are done directly to selected export customers or through the wholly owned subsidiary, the East African Portland Cement Uganda Limited, whose net assets constitute less than 5% of the Group's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value. In addition, sales to regional market are 1% (2021: 1%) of the total revenue hence there is only one reportable segment. There is no single customer who contributes more than 10% of the total revenues.

6 Revenue

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Recognised at a point in time:</i>				
Bagged cement – local	2,083,874	2,732,636	2,083,874	2,732,636
Bagged cement – export	25,470	19,872	25,470	19,872
Bulk cement – local	32,365	9,450	32,365	9,450
Paving blocks- local	1,570	790	1,570	790
	<u>2,143,279</u>	<u>2,762,748</u>	<u>2,143,279</u>	<u>2,762,748</u>

7 Cost of sales

Coal	529,674	772,773	529,674	772,773
Power	200,920	635,495	200,920	635,495
Raw materials used	777,854	570,860	777,854	570,860
Staff costs	451,292	523,238	451,292	523,238
Factory depreciation	362,186	478,810	362,186	478,810
Maintenance costs	140,524	158,409	140,524	158,409
Raw materials transport	48,258	124,131	48,258	124,131
Hired equipment	209,871	110,430	209,871	110,430
Cement levy	63,976	62,130	63,976	62,130
Fuel and repairs	24,751	58,797	24,751	58,797
Furnace oil	35,332	40,956	35,332	40,956
Factory direct supplies	30,015	22,508	30,015	22,508
Factory insurance	143	18,845	143	18,845
Inventory provision	46,156	-	46,156	-
Explosives	3,782	3,009	3,782	3,009
Factory land rates and rent	-	2,096	-	2,096
Other production overheads	64	795	64	795
Factory water	711	-	711	-
	<u>2,925,509</u>	<u>3,583,282</u>	<u>2,925,509</u>	<u>3,583,282</u>

8 Other operating income

Sundry income	31,894	32,063	31,894	32,063
Rental income	16,113	16,291	16,113	16,291
Cement transport recoveries	9,911	21,866	9,911	21,866
Exchange gain on other foreign currency transactions	16,254	4,623	16,254	4,623
	<u>74,172</u>	<u>74,843</u>	<u>74,172</u>	<u>74,843</u>

Notes (continued)

9	Selling and distribution expenses	Group		Company	
		2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
	Cement transport	4,448	49,392	4,448	49,392
	Advertising and sales commissions	3,718	31,942	3,718	31,942
	Fuel and repairs	11,865	12,075	11,865	12,075
	Public relations costs	5,077	4,151	5,077	4,151
	Depot rent	7,675	-	7,675	-
		<u>32,783</u>	<u>97,560</u>	<u>32,783</u>	<u>97,560</u>
10	Administration and establishment expenses				
	Staff costs	492,780	643,135	492,780	643,135
	Depreciation of property, plant and equipment	44,447	71,065	44,447	71,065
	Hired services	61,062	49,254	61,062	49,254
	Computer expenses	31,182	36,309	31,182	36,309
	Amortization of right of use assets (Note 33)	12,052	22,975	12,052	22,975
	Amortization of intangible assets	1,120	-	1,120	-
	Office general expenses	39,317	19,139	39,317	19,139
	Board expenses	18,242	13,873	18,242	13,873
	Office supplies	7,945	9,790	7,945	9,790
	Telephone and postage	13,583	8,861	13,583	8,861
	Travelling expenses	11,960	8,090	11,960	7,824
	Printing and stationery	1,315	2,509	1,315	2,509
	Motor vehicle expenses	6,519	1,783	6,519	1,783
	Electricity	938	851	938	851
	Company functions	1,253	766	1,253	766
		<u>743,715</u>	<u>888,400</u>	<u>743,715</u>	<u>888,134</u>
11 (a)	Other operating expenses				
	Loss on disposal of investment property	-	572,844	-	572,844
	Loss on disposal of property, plant & equipment	38,998	87,230	38,998	87,230
	Legal accruals	25,200	385,340	25,200	385,340
	Legal fees	64,623	265,021	64,623	265,021
	Accruals for staff dues and tax liabilities*	208,487	137,719	208,487	137,719
	Auditors' remuneration	8,923	8,700	8,923	8,700
	Professional fees	49,463	11,422	49,463	11,422
	Fines and penalties	8,797	8,728	8,797	8,728
	Bank charges	3,807	7,183	3,807	7,183
	Subscriptions	1,498	763	1,498	763
	Donation	135	-	135	-
		<u>409,931</u>	<u>1,484,950</u>	<u>409,931</u>	<u>1,484,950</u>

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

Notes (continued)

11 (b) Expected credit loss allowance movement	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Loss allowance on trade receivables (Note 23)	38,088	29,585	38,088	29,585
Unwinding of discount of Kenya Railways receivable (Note 23)	(92,638)	(33,820)	(92,638)	(33,820)
	(54,550)	(4,235)	(54,550)	(4,235)

12 Finance income and costs	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
<i>Finance income</i>				
Interest income	-	(149)	-	(149)
<i>Finance cost</i>				
Interest charged on loans (Note 26)	65,667	809,900	65,667	809,900
Exchange loss on other liabilities (Note 28)	29,544	6,754	29,544	6,754
Interest on lease liabilities (Note 33(a))	5,641	7,307	5,641	7,308
Exchange loss on foreign currency loan (Note 26)	-	11,732	-	11,732
	100,852	835,694	100,852	835,694
Net finance cost	100,852	835,545	100,852	835,545

13 Employee benefits expense				
Salaries and wages	745,391	817,395	745,391	817,395
Restructuring costs	-	10,509	-	10,509
Retirement benefits costs:				
Defined benefit scheme	195,691	330,530	195,691	330,530
Defined contribution scheme	456	5,960	456	5,960
Social security costs (NSSF)	2,514	1,979	2,514	1,979
	944,052	1,166,373	944,052	1,166,373

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

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Production	303	309	303	309
Sales and distribution	37	35	37	35
Management and administration	158	157	158	157
	498	501	498	501

Notes (continued)

14 (a) Income tax expense / (credit)	Group and Company	
	2022 Shs'000	2021 Shs'000
Current income tax	5,618	7,246
Deferred income tax (Note 27)	(18,004)	(158,890)
Income tax credit	(12,386)	(151,644)

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

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Profit before income tax	529,199	1,735,936	529,199	1,736,202
Tax calculated at the statutory income tax rate of 30% (2021: 30%)	158,760	520,781	158,760	520,861
Tax effect of:				
Fair value gains on investment property	(740,996)	(1,735,154)	(740,996)	(1,735,154)
Income not subject to tax	(30,385)	(217,355)	(30,385)	(217,355)
Expenses not deductible for tax purposes	16,248	60,277	16,248	60,197
Deferred tax asset not recognised	583,987	1,219,807	583,987	1,219,807
Income tax credit	(12,386)	(151,644)	(12,386)	(151,644)

(b) Current Income tax

At start of year	40,231	46,352	40,379	46,211
Tax charge for the year	(5,618)	(7,246)	(5,618)	(7,246)
Tax paid	-	1,699	-	1,414
	34,613	40,235	34,761	40,379

15 Earnings per share

Earnings for purposes of basic and diluted earnings per share	541,585	1,887,580	541,585	1,887,846
Number of ordinary shares (thousands)	90,000	90,000	90,000	90,000
Earnings per share basic and diluted (Shs)	6.02	20.97	6.02	20.98

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 2022 or 30 June 2021. Therefore, a diluted earnings per share is the same as the basic earnings per share.

Notes (continued)

16 Property, plant and equipment- Group

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers office equipment furniture and fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
At 1 July 2020							
Cost or fair value	362,000	1,265,602	6,314,510	347,891	64,972	172,421	8,511,996
Accumulated depreciation	-	(94,748)	(1,269,200)	(181,899)	(34,832)	-	(1,580,679)
Closing net book value	362,000	1,170,854	5,045,310	165,992	30,140	172,421	6,931,317
Year ended 30 June 2021							
Opening carrying amount	362,000	1,170,854	5,045,310	165,992	30,140	157,021	6,931,317
Additions	-	-	91,299	2,997	2,266	-	96,562
Revaluation surplus/(deficit)	1,000	(181,214)	548,209	-	9,539	-	377,534
Depreciation charge	-	(31,640)	(427,745)	(62,680)	(16,086)	-	(538,151)
Closing net book value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
At 30 June 2021							
Cost or fair value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Accumulated depreciation	-	-	-	-	-	-	-
Closing net book value	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Year ended 30 June 2022							
Opening carrying amount	363,000	958,000	5,257,073	106,309	25,859	157,021	6,867,262
Additions	-	-	6,717	-	22,862	-	29,579
Cost elimination on disposal	-	-	(88,666)	(11,498)	-	-	(100,164)
Depreciation charge	-	(23,815)	(307,123)	(66,630)	(9,064)	-	(406,632)
Depreciation eliminated on disposal	-	-	5,589	1,438	335	-	7,362
Closing net book value	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407
At 30 June 2022							
Cost or fair value	363,000	958,000	5,175,124	94,811	48,721	157,021	6,796,677
Accumulated depreciation	-	(23,815)	(301,534)	(65,192)	(8,729)	-	(399,270)
Net book value	363,000	934,185	4,873,590	29,619	39,992	157,021	6,397,407

Notes (continued)

16 Property, plant and equipment- Company

	Freehold land	Buildings	Plant and machinery	Motor Vehicles	Computers , office equipment and Fittings	Capital Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July 2020							
Cost or fair value	362,000	1,265,602	6,314,510	348,101	64,725	157,021	8,511,959
Accumulated depreciation	-	(94,748)	(1,269,200)	(181,899)	(34,815)	-	(1,580,662)
Closing net book value	362,000	1,170,854	5,045,310	166,202	29,910	157,021	6,931,297
Year ended 30 June 2021							
Opening carrying amount	362,000	1,170,854	5,045,310	166,202	29,910	157,021	6,931,297
Additions	-	-	91,299	2,997	2,266	-	96,562
Depreciation charge	-	(31,640)	(427,745)	(62,680)	(16,086)	-	(538,151)
Revaluation surplus/(deficit)	1,000	(181,214)	548,209	-	9,539	-	377,534
Closing net book value	363,000	958,000	5,257,073	106,519	25,629	157,021	6,867,242
At 30 June 2021							
Cost or fair value	363,000	958,000	5,257,073	106,519	25,629	157,021	6,867,242
Accumulated depreciation	-	-	-	-	-	-	-
Closing net book value	363,000	958,000	5,257,073	106,519	25,629	157,021	6,867,242
Year ended 30 June 2022							
Opening carrying amount	363,000	958,000	5,257,073	106,519	25,629	157,021	6,867,242
Additions	-	-	6,717	-	22,862	-	29,579
Cost elimination on disposal	-	-	(88,666)	(11,498)	-	-	(100,164)
Depreciation charge	-	(23,815)	(307,123)	(66,630)	(9,064)	-	(406,632)
Depreciation eliminated on disposal	-	-	5,589	1,438	335	-	7,362
Closing net book value	363,000	934,185	4,873,590	29,829	39,762	157,021	6,397,387
At 30 June 2022							
Cost or fair value	363,000	958,000	5,175,124	95,021	48,491	157,021	6,796,657
Accumulated depreciation	-	(23,815)	(301,534)	(65,192)	(8,729)	-	(399,270)
Net book value	363,000	934,185	4,873,590	29,829	39,762	157,021	6,397,387

Notes (continued)

16 Property, plant and equipment (continued)

Group and Company

The property, plant and equipment were revalued by Knight Frank Valuers Limited, registered valuers, as at 30 June 2021. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Group's policy is to revalue property, plant and equipment at least once every three to five years. Properties owned by the Group, Land Reference numbers 337/639, 8649 and 9767, and plant and machinery have been charged to secure loan facilities as disclosed under Note 26.

Critical spares included in plant and machinery amounted to Shs 76,561,452 (2021: 77,658,108) for the Group and Company.

Work in progress mainly relates to costs incurred towards assembling a grate cooler for the kiln. Target capitalization date for the grate cooler is expected by end of the third quarter for the year ending 30 June 2023.

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 2022							
Cost	120,637	139,965	5,202,599	342,390	89,624	157,021	6,052,236
Accumulated depreciation	-	(79,981)	(1,581,537)	(251,861)	(35,939)	-	(1,949,318)
Net book value	120,637	59,984	3,621,062	90,529	53,685	157,021	4,102,918
30 June 2021							
Cost	120,637	139,965	5,284,548	353,888	66,762	157,021	6,122,821
Accumulated depreciation	-	(56,166)	(1,280,003)	(186,669)	(27,210)	-	(1,550,048)
Net book value	120,637	83,799	4,004,545	167,219	39,552	157,021	4,572,773

Fair value hierarchy:

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

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

Group and Company property, plant and equipment were measured based on Level 3 inputs as at 30 June 2022 and 30 June 2021. The land was valued on an open market value basis while the other assets were valued on a depreciated replacement cost basis. There were no transfers between Levels 1, 2 and 3 in the period

Notes (continued)

16 Property, plant and equipment (continued)

Fair value hierarchy (continued)

Details of the Group's and Company's Property, Plant and equipment and information about fair value hierarchy as at 30 June 2022 are as follows:

Group and Company	Level 1	Level 2	Level 3	Fair value as at 30 June
	Shs'000	Shs'000	Shs'000	Shs'000
30 June 2021				
Freehold land	-	-	363,000	363,000
Buildings	-	-	958,000	958,000
Plant and Machinery	-	-	5,061,227	5,061,227
Motor vehicles	-	-	302,365	302,365
Computers, office equipment and Fittings	-	-	25,629	25,629
	-	-	6,710,241	6,710,241

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

Instrument	Level	Valuation basis	Significant unobservable Inputs	Sensitivity of input to the fair value
Freehold land	3	Market approach	Average value per acre	Increase/ (decrease) in the average value per acre by 10% would decrease/ (increase) fair value by Shs 36,300,000
Buildings	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 19,160,000.
Property, plant and equipment	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 103,500,000.
Motor vehicles	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 30,200,000.
Computers, office equipment and Fittings	3	Depreciated replacement method	Estimated Economic Lifespan	Increase/ (decrease) in estimated economic lifespan by 1 year would decrease/ (increase) fair value by Shs 4,300,000.

Notes (continued)

16 Property, plant and equipment (continued)

Fair value hierarchy (continued)

Basis of Valuation

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

Estimated Economic Lifespan

Estimated economic life/life expectancy assigned to the machines have been obtained through empirical observation, consultant's own professional experience with cement and related products manufacturing plant and machinery, field survey and more importantly a readjustment on the published guidelines in light of the periodical repairs and maintenance work schedules in place. A good number plant and machinery assets installed and commissioned in 1960 had served well beyond the conventional economic lifespan of 30 years. Nonetheless, these categories of assets were still in fair operational condition attributable to continuous refurbishment and repairs works carried from time to time. Arising from these refurbishment and repairs works done, an extension of estimated economic lifespan for the respective machines was effected beyond the conventional timeline. For those aged below 30 years in service, depreciation at an annual rate of 3 % equivalent to estimated economic lifespan of 30 years was applied.

17 Prepaid operating leases

	Group and Company	
	2022	2021
	Shs'000	Shs'000
Cost		
At the beginning of the year	8,792	9,960
Transfer to investment property	-	(1,168)
	<hr/>	<hr/>
At end of year	8,792	8,792
	<hr/>	<hr/>
Amortisation		
At the beginning of the year	3,856	3,937
Charge for the year	61	45
Eliminated on transfer to investment property	-	(126)
	<hr/>	<hr/>
At end of year	3,917	3,856
	<hr/>	<hr/>
Net carrying amount	<hr/>	<hr/>
	4,875	4,936
	<hr/>	<hr/>

The Group and Company have entered into operating lease agreements for leasing of most of its land where it extracts limestone. These leases have an average life of 952 years with a renewal option on expiry of the contract. On adoption of IFRS 16, the lease prepayment was re-classified to right of use assets to be amortised on straight line basis over the lease term as disclosed on Note 33(b). The Group assets have been charged to secure loan facilities as disclosed in Note 26.

Notes (continued)

18 Investment properties

	Group and Company	
	2022	2021
	Shs'000	Shs'000
At start of year	25,271,720	24,909,676
Transfer from prepaid operating lease (Note 17)	-	1,042
Fair value gain in the year	2,469,988	5,783,847
Disposals	(369,260)	(5,422,845)
	27,372,448	25,271,720

Investment properties relate to twenty six pieces of leasehold land (6,366 acres) held by the Group under long-term lease arrangements following successful subdivision of LR 10424 into twenty one parcels. The fair value of the investment property is based on the valuation carried out by Regent Valuers International (K) Limited, independent valuers, on the basis of open market value (Level 3) as adjusted for the haircut. Included in the haircut is the eviction cost of Shs 425,870,000 as at 30 June 2022 (2021: Shs 425,870,000).

The valuers are registered valuers and have recent experience in the location and the category of the investment property being valued.

The Group assets have been charged to secure loan facilities as disclosed in Note 26.

The Company voluntarily surrendered LR 10425 totalling 4,272 acres to the National Government, in support of the affordable housing agenda, in October 2019 following shareholder approval vide an Extraordinary General Meeting held on 27th September 2019. The Central Organization of Trade Unions filed petition number 46 of 2019 in the Environment and Lands Court objecting the surrender which was upheld vide ruling delivered in December 2021. The Company is yet to conclude the transfer of the said property to its name and as such the values of the property have been omitted from these financial statements.

Group and Company Investment properties were measured based on Level 3 inputs as at 30 June 2022 and 30 June 2021. The land was valued on an open market value basis. There were no transfers between Levels 1, 2 and 3 in the period

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

Asset	Level	Valuation basis	Significant unobservable Inputs	Assumption value per valuation	Sensitivity of input to the fair value
Investment property	3	Market approach	Average value per acre	Average of Shs 5,200,000 per acre	At 30 June 2022, if the average value per acre of investment properties had increased by 10% with all other variables held constant, profit for the year would have been Shs 3,236,960,000 (2021: Shs 2,527,170,000) higher /lower.
Investment property	3	Market approach	Haircut to adjust for illiquidity	Between 18% and 30%	At 30 June 2022, if the haircut had increased by 10% with all other variables held constant, profit for the year would have been Shs 181,176,000 (2021: Shs 168,381,000) higher /lower.

Notes (continued)

19 Investment in subsidiary

Company	Beneficial ownership	Country of incorporation	2022	2021
			Shs'000	KShs'000
East African Portland Cement Company Uganda Limited	100%	Uganda	2,500	2,500

The principal activity of the subsidiary is the sale of cement purchased from the parent company. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The subsidiary has not issued any preference shares. There were no restrictions (statutory, contractual and regulatory restrictions) on the Group's ability to access or use the assets and settle liabilities of the Group.

20 Intangible Assets

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

	Group and Company	
	2022 Shs'000	2021 Shs'000
Cost		
At the beginning of year	-	-
Additions	6,726	-
At end of year	6,726	-
Amortization		
At the beginning of the year	-	-
Charge for the year	(1,456)	-
At end of year	(1,456)	-
Net carrying amount	5,270	-

21 Cash and cash equivalents

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Bank balances	37,108	28,393	26,844	17,420
Cash on hand	1,638	3,229	567	3,229
	38,746	31,622	27,411	20,649

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

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Cash and cash equivalents	38,746	31,622	27,411	20,649
Bank overdraft (Note 26)	(1,590)	-	(1,590)	-
	37,156	31,622	25,821	20,649

Notes (continued)

22 Inventories	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Consumables	898,045	919,860	898,045	919,860
Raw materials	110,946	197,758	110,946	197,758
Work-in-progress	5,170	-	5,170	-
Finished products	7,075	17,692	9,562	17,692
	<hr/>	<hr/>	<hr/>	<hr/>
	1,021,236	1,135,310	1,023,723	1,135,310
Provision for obsolete inventories	(97,152)	(50,996)	(97,152)	(50,996)
	<hr/>	<hr/>	<hr/>	<hr/>
	924,084	1,084,314	926,571	1,084,314

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,240,337,000 (2021: Shs 1,384,589,000) for the Group and Company.

No inventory was written off in the current year.

23 Trade and other receivables	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Gross trade receivables	412,800	413,852	793,522	781,042
Impaired trade receivables	(405,439)	(367,351)	(763,888)	(725,800)
	<hr/>	<hr/>	<hr/>	<hr/>
Net trade receivables	7,361	46,501	29,634	55,242
Prepayments and deposits	276,560	-	276,560	-
Other receivables	63,933	145,099	22,523	105,011
Amount due from related parties (Note 34(iii))	688,308	1,095,670	688,308	1,095,670
	<hr/>	<hr/>	<hr/>	<hr/>
	1,036,162	1,287,270	1,017,025	1,255,923
	<hr/>	<hr/>	<hr/>	<hr/>
Amount due from related parties				
Gross amount due from related parties	916,141	1,416,141	916,141	1,416,141
Impairment	(227,833)	(320,471)	(227,833)	(320,471)
	<hr/>	<hr/>	<hr/>	<hr/>
Net due from related parties (Note 34 (iii))	688,308	1,095,670	688,308	1,095,670
	<hr/>	<hr/>	<hr/>	<hr/>
Other receivables				
Gross -Other receivables	494,504	575,670	453,094	535,582
Impairment	(430,571)	(430,571)	(430,571)	(430,571)
	<hr/>	<hr/>	<hr/>	<hr/>
Net other receivables	63,933	145,099	22,523	105,011

Notes (continued)

23 Trade and other receivables(continued)

In the opinion of the directors, the carrying amounts of the receivables approximate their fair value. The closing loss allowances for trade receivables as at 30 June 2022 reconcile to the opening loss allowances as set out below;

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Opening loss allowance	367,351	337,766	725,800	696,215
Increase in loss allowance (Note 11 (b))	38,088	29,585	38,088	29,585
	<u>405,439</u>	<u>367,351</u>	<u>763,888</u>	<u>725,800</u>

24 Share capital and reserves

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Share capital				
Authorised:				
126,000,000 shares of Shs 5 each	630,000	630,000	630,000	630,000
Authorised, issued and fully paid:				
90,000,000 shares of Shs 5 each	450,000	450,000	450,000	450,000
(b) 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.

(c) Asset revaluation reserve

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Asset revaluation reserve	1,031,948	1,282,468	1,031,948	1,282,468

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

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

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
(d) Other reserves				
Foreign currency translation reserve	22,700	37,128	-	-
Post-employment benefits reserve	279,035	237,025	279,035	237,025
	<u>301,735</u>	<u>274,153</u>	<u>279,035</u>	<u>237,025</u>

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of the foreign subsidiary, East African Portland Cement Uganda Limited and is not distributable. Post-employment benefits reserve is used to record actuarial gains or losses arising from changes in demographic and financial assumptions recognised in other comprehensive income.

Notes (continued)

25 Post-employment benefit obligations

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

Mode of exit	Length of service	Benefit per year of service
Termination, death, disablement and retirement	Less than 1 year	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	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Staff gratuity – current	521,181	-	521,181	-
Staff gratuity – non-current	-	427,341	-	427,341
	<u>521,181</u>	<u>427,341</u>	<u>521,181</u>	<u>427,341</u>

The current liability portion relates to employees whose contracts are ending between September and December 2022

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

	Group and Company	
	2022 Shs'000	2021 Shs'000
Current service cost	125,010	65,895
Net interest expense	70,681	130,503
Component of defined benefit costs recognised in profit or loss	<u>195,691</u>	<u>196,398</u>
Actuarial (gains) / losses arising from changes in demographic and financial assumptions recognised in other comprehensive income	<u>(60,014)</u>	<u>(152,101)</u>
	<u>135,677</u>	<u>44,297</u>

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

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

Notes (continued)

25 Post-employment benefit obligations(continued)

Year ended 30 June 2021-	Group and Company		
	Before tax Shs'000	Tax charge Shs'000	After tax Shs'000
Actuarial loss –expert valuations	(152,101)	45,630	(106,471)

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

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
At start of year	427,341	1,492,913	427,341	1,492,913
Current service cost	125,010	65,895	125,010	65,895
Net interest expense	70,681	130,503	70,681	130,503
Actuarial gains arising from changes in financial assumptions	(35,140)	(141,508)	(35,140)	(141,508)
Actuarial gains arising from changes in demographic assumptions	(24,874)	(10,593)	(24,874)	(10,593)
Benefit payable	(41,837)	(1,109,869)	(41,837)	(1,109,869)
At end of year	521,181	427,341	521,181	427,341

The significant actuarial assumptions used were as follows:

	Group and Company	
	2022 Shs'000	2021 Shs'000
Discount rate (%)	13.9%	13.3%
Average salary escalation rate (%)	10%	10%

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

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease/(increase) by Shs 40,000,000.
- A 1% increase/decrease on the salary escalation rate would not have a material impact on defined benefit obligation as at 30 June 2022.

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

Notes (continued)

26 Borrowings

The borrowings are analysed as follows;

	2022	Group and Company
	Shs'000	2021
		Shs'000
Term loan	1,862,960	1,736,470
Government debt (Note 34(iv))	1,942,945	1,942,945
Bank overdraft	1,590	-
	<hr/>	<hr/>
Total borrowings	3,807,495	3,679,415
	<hr/>	<hr/>
Current portion of borrowings	3,807,495	3,679,415
	<hr/>	<hr/>

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

	2022	Group and Company
	Shs'000	2021
		Shs'000
At start of year	3,679,415	7,523,601
Additions during the year	60,823	184,182
Interest charged to profit or loss (Note 12)	65,667	809,900
Interest paid	-	(361,763)
Principal repayments	-	(4,488,237)
Foreign exchange loss	-	11,732
	<hr/>	<hr/>
	3,805,905	3,679,415
	<hr/>	<hr/>

i) Government loan

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

There was no Group or Company assets pledged as security, and neither are there any covenants attached to the loan facility. The loan was repayable in instalments which are paid twice a year, on 20 March and 20 September with effect from 20 September 2000. The last repayment was by the government on 20 March 2021.

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 2022.

ii) Term Loan

The Group breached repayment covenants on working capital facilities provided by KCB. Consequently, KCB recalled the outstanding debt under all the facilities. The Group entered into a settlement deed with KCB on 18 October 2019. The settlement deed required consolidation of outstanding debts under all the facilities into one term loan and provided a one-year moratorium of repayments of outstanding principal and interest. Owing to delayed realisation of proceeds of disposal of land, the moratorium was extended for another year and is expected to end on 17 October 2022.

Notes (continued)

26 Borrowings(continued)

ii) Term Loan (continued)

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

The Company sought shareholder approval through an Extraordinary General Meeting held on 27th September 2019 on sale of investment property (LR 8784\4 & LR 8786) to retire all KCB debt. The Company transferred LR 8786 to KCB for purposes of debt settlement yielding a reduction of Shs 4,850,000,000. The company is at the tail end of conclusion of transfer of LR 8784/146 to KCB for settlement of the outstanding debt.

27 Deferred income tax

a) Deferred tax movement

Deferred income tax is calculated using the enacted income tax rate of 30% (2021: 30%). The movement on the deferred income tax account is as follows:

	Group and Company			
	2022	2021		
	Shs'000	Shs'000		
At start of year		-		
Charge to other comprehensive income	(18,004)	(158,890)		
Deferred tax credited to profit or loss	18,004	158,890		
At end of year		-		-
Group and Company				
	1 July 2020	Charge/ (credited) to Profit and loss	Charge to OCI	At 30 June 2021
Year ended 30 June 2021	Shs'000	Shs'000	Shs'00	Shs'000
Deferred tax liabilities				
Property, plant and equipment	1,271,761	130,332	113,260	1,515,353
Investment properties	1,245,484	29,621	-	1,275,105
	2,517,245	159,953	113,260	2,790,458
Deferred tax assets				
Tax losses carried forward (Note 27 (b))	(3,441,501)	(1,450,483)	-	(4,891,984)
Provisions	(1,015,887)	(41,443)	45,630	(1,011,700)
Leases	993	(2,564)	-	(1,571)
Other temporary differences	(332,959)	(44,160)	-	(377,119)
	(4,789,354)	(1,538,650)	45,630	(6,282,374)
Net deferred income tax asset	(2,272,109)	(1,378,697)	158,890	(3,491,916)
Deferred tax written off	2,272,109	1,219,807	-	3,491,916
Net deferred income tax liability(asset)	-	(158,890)	158,890	-

Notes (continued)

27 Deferred income tax

a) Deferred tax movement (continued)

Group and Company	At 1 July 2021	Charge/ (credited) to Profit and loss	Charge to OCI	At 30 June 2022
Year ended 30 June 2022	Shs'000	Shs'000	Shs'00	Shs'000
Deferred tax liabilities				
Property, plant and equipment	1,515,353	(120,053)	-	1,395,300
Investment properties	1,275,105	93,517	-	1,368,622
	<u>2,790,458</u>	<u>(26,536)</u>	<u>-</u>	<u>2,763,922</u>
Deferred tax assets				
Tax losses carried forward (Note 27 (b))	(4,891,984)	(409,925)	-	(5,301,909)
Provisions	(1,011,700)	(86,420)	18,004	(1,080,117)
Leases	(1,571)	4,194		2,623
Other temporary differences	(377,119)	(83,304)		(460,423)
	<u>(6,282,374)</u>	<u>(575,455)</u>	<u>18,004</u>	<u>(6,839,825)</u>
Net deferred income tax asset	(3,491,916)	(601,991)	18,004	(4,075,903)
Deferred tax written off/not recognised	3,491,916	583,987	-	4,075,903
Net deferred income tax liability(asset)	-	(18,004)	18,004	-

b) Ageing of tax losses

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

Financial year incurred	Tax asset (Shs '000)
2008/09	43,296
2009/10	98,134
2010/11	260,600
2011/12	62,180
2014/15	621,896
2015/16	674,989
2016/17	293,823
2017/18	692,031
2018/19	594,266
2019/20	100,286
2020/21	1,450,483
2021/22	<u>409,925</u>
Total	<u>5,301,909</u>

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)

28 Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	2,430,924	2,254,050	2,430,925	2,152,369
Other payables and accruals	2,524,837	2,210,540	2,522,056	2,309,530
Staff payables	2,425,294	2,481,029	2,425,294	2,481,029
Due to related parties (Note 34 (iv))	2,115,454	2,027,364	2,115,454	2,027,364
Advance receipts from customers	57,248	177,917	57,248	177,917
Other liabilities	240,208	210,664	240,208	210,664
At end of year	9,793,965	9,361,564	9,791,185	9,358,873

Trade and other payables are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying amounts of the above trade and other payables approximate their fair values.

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

Staff payables include amounts accrued for staff related legal suit and unpaid amounts due to employees resulting from previous terminations.

Other Liabilities

During the year ended 30 June 2018, the group terminated the arrangement with Stanbic Bank and initiated a mark to market net settlement of the swap arrangement resulting in a payable position of Shs 186,220,000 as at 30 June 2018. The liability amounted to Shs 240,208,000 as at 30 June 2022 (2021: Shs 210,664,000).

The table below shows the movement of the liability

	Group and Company	
	2022	2021
	Shs'000	Shs'000
At start of year		
Foreign exchange loss	210,664	203,910
	29,544	6,754
At end of year	240,208	210,664

29 Dividend payable

	Group and Company	
	2022	2021
	Shs'000	Shs'000
Dividend payable	101,680	101,680

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

Notes (continued)

30 Contingent liabilities

(i) Tax Assessment

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

(ii) Litigation and claims

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

31 Capital commitments

	Group and Company	
	2022	2021
	Shs'000	Shs'000
Authorised by the directors but not contracted for	680,438	777,000

32 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before taxation	529,199	1,735,936	529,199	1,736,202
Adjustments for:				
Depreciation of PP&E (Note 16)	406,632	538,151	406,632	538,151
Depreciation of right-of-use assets (Note 33)	17,883	22,975	17,883	22,975
Amortisation on prepaid operating leases (Note 17)	61	45	61	45
Amortisation on intangible assets (Note 20)	1,456	-	1,456	-
Loss on disposal of investment property (Note 11)	-	572,844	-	572,844
Fair value gain on investment property (Note 18)	(2,469,988)	(5,783,847)	(2,469,988)	(5,783,847)
Interest expense on borrowings (Note 26)	65,667	809,900	65,667	809,900
Interest income (Note 12)	-	(149)	-	(149)
Post-employment benefits service cost	153,858	196,398	153,854	196,398
Interest on lease liabilities (Note 33)	5,641	7,307	5,641	7,307
Net cash before working capital changes	(1,289,591)	(1,900,440)	(1,289,595)	(1,900,174)
Changes in working capital:				
Inventories	160,230	27,853	157,743	27,853
Trade and other receivables	251,108	(1,106,689)	238,898	(1,108,172)
Trade and other payables	432,401	1,120,405	432,312	1,121,075
Cash used in operations	(445,852)	(1,858,871)	(460,642)	(1,859,418)

Notes (continued)

33 Leases

(a) Lease liabilities

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

	Group and Company	
	2022	2021
	Shs'000	Shs'000
Movement of lease liabilities:		
At start of year	58,986	57,361
Interest expense on lease liability (Note 12)	5,641	7,307
Interest paid	(5,641)	-
Payments of the lease liability	(15,125)	(27,760)
Additions	-	22,078
	<hr/>	<hr/>
At end of year	43,861	58,986
	<hr/>	<hr/>
Maturity analysis of the lease liabilities:		
Current lease liabilities	24,246	38,541
Non-current lease liabilities	19,615	20,445
	<hr/>	<hr/>
	43,861	58,986
	<hr/>	<hr/>

(b) Right of use assets

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

	Group and Company	
	2022	2021
	Shs'000	Shs'000
Movement of lease assets:		
At start of year	53,751	54,648
Additions	-	22,078
Depreciation charge	(17,883)	(22,975)
	<hr/>	<hr/>
	35,868	53,751
Lease prepayments amortised on a straight-line basis (Note 17)	4,875	4,936
	<hr/>	<hr/>
At end of year	40,743	58,687
	<hr/>	<hr/>

Notes (continued)

34 Related party transactions

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

Shareholder	Group and Company	
	2022	2021
Bamburi Cement Limited	12.5%	12.5%
Cementia Holdings	14.6%	14.6%
Associated International Cement	14.6%	14.6%
The National Treasury	25.3%	25.3%
National Social Security Fund	27%	27%
Other investors	6%	6%
	100%	100%

The Government of Kenya, through combined shareholding of National Social Security Fund and The National Treasury, is the ultimate parent and controlling party. The Company is related to other companies through common shareholding or common directorships. The following transactions were carried out with related parties. These related parties represent entities with which the Company has common shareholders and directors

(i) Sale of goods and services

There were no sale of goods and services made during the year with related parties (2021: Nil).

(ii) Purchase of goods and services

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
National Social Security Fund	2,514	1,979	2,514	1,979
National Health Insurance Fund	9,450	6,351	9,450	6,351
Kenya Revenue Authority	245,486	476,874	245,486	476,874
The National Treasury	-	459,869	-	459,869
	257,450	945,073	257,450	945,073

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

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

(iii) Due from related parties:

Current				
Kenya Railways Corporation	563,486	929,529	563,486	929,529
Kenya National Highway Authority	124,822	166,141	124,822	166,141
	688,308	1,095,670	688,308	1,095,670

Notes (continued)

34 Related party transactions (continued)

(iii) Due from related parties (continued)

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

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

(iv) Due to related parties

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Kenya Revenue Authority (Note 28)	2,115,454	2,027,364	2,115,454	2,027,364
The National Treasury (Note 26)	1,942,945	1,942,945	1,942,945	1,942,945
	<u>4,058,399</u>	<u>3,970,309</u>	<u>4,058,399</u>	<u>3,970,309</u>

(v) Key management compensation

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

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other short-term employee benefits	47,539	53,194	47,539	53,194
Post-employment benefits	14,306	11,617	14,306	11,617
	<u>61,845</u>	<u>64,811</u>	<u>61,845</u>	<u>64,811</u>

(vi) Directors' remuneration

Fees for services as directors	1,100	1,100	1,100	1,100
Other emoluments	15,933	12,370	15,933	12,370
	<u>17,033</u>	<u>13,470</u>	<u>17,033</u>	<u>13,470</u>

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