ARM

ATHI RIVER MINING LTD

2002 Annual Report & Accounts

Our People, Our Strength

Contents

Notice of Annual General Meeting

To All Shareholders

Notice is hereby given of the 2003 Annual General Meeting to be held at the Palm Room, Holiday Inn, Parklands Road, Nairobi on Thursday, 5th June, 2003 at 11.00 a.m.

AGENDA

Ordinary Business

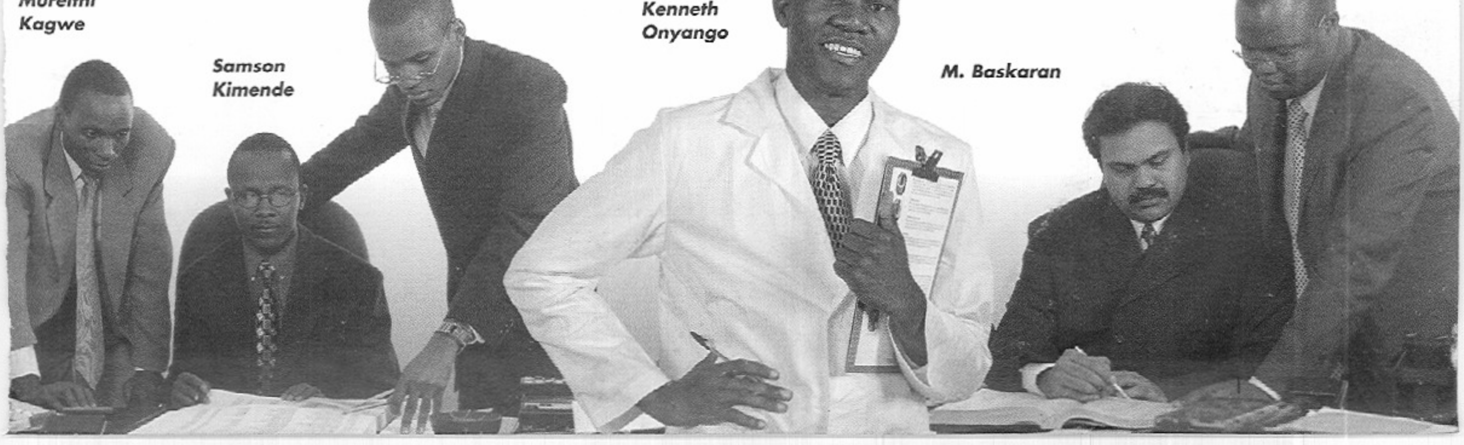
1. To read the Notice convening the meeting.
2. To approve the minutes of the previous Annual General Meeting held on 6th June 2002.
3. To receive, consider and adopt the Balance Sheet and Accounts for the year ended 31 December 2002 together with the Reports thereon of the Directors and Auditors.
4. To approve the Directors Remuneration as provided in the accounts for the year ended 31 December 2002.
5. To note that an interim dividend of 0.30 cents per share was paid during the year and to approve the payment of a final dividend of 0.10 cents per share in respect of the year ended 31 December 2002.
6. To re-elect Directors:
   Mr. P. J. Rune retires by rotation under the provision of Article 95 of the Articles of Association and being eligible offers himself for re-election.
7. To note that Deloitte and Touche continue in office as auditors in accordance with the provisions of Sec.159(2) of the Companies Act and to authorise the Directors to fix their remuneration for the ensuing financial year.

By Order of the Board

R.R. Vora
Secretary
25th March 2003

Note: A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.

"We have built a strong, professional team over the last few years with an emphasis on information systems and computerization. This is critical in keeping up with the growth in our business, and to our commitment to adopt the best practices and highest ethical standards as per our Corporate Governance Charter."
Anthony Njenga
Finance Manager



Corporate Information

Directors

Mr B Rogers - Chairman
Mr H J Paunrana - Vice-Chairman
Mr P H Paunrana - Managing
Mr S L Bhatia* - Commercial
Mr W Murungi
Mr P J Rune
The Acacia Fund Limited
Bamburi Cement Limited

* *Indian*

Audit committee

Mr B Rogers
Mr W Murungi
The Acacia Fund Limited

Secretary

Mr R R Vora
Marakwet House
P O Box 48405
00100 GPO
Nairobi

Registered Office

L R 209/74/7/2, Chiromo Road
Westlands
P O Box 41908
00100 GPO
Nairobi

Auditors

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092
00100 GPO
Nairobi

Bankers

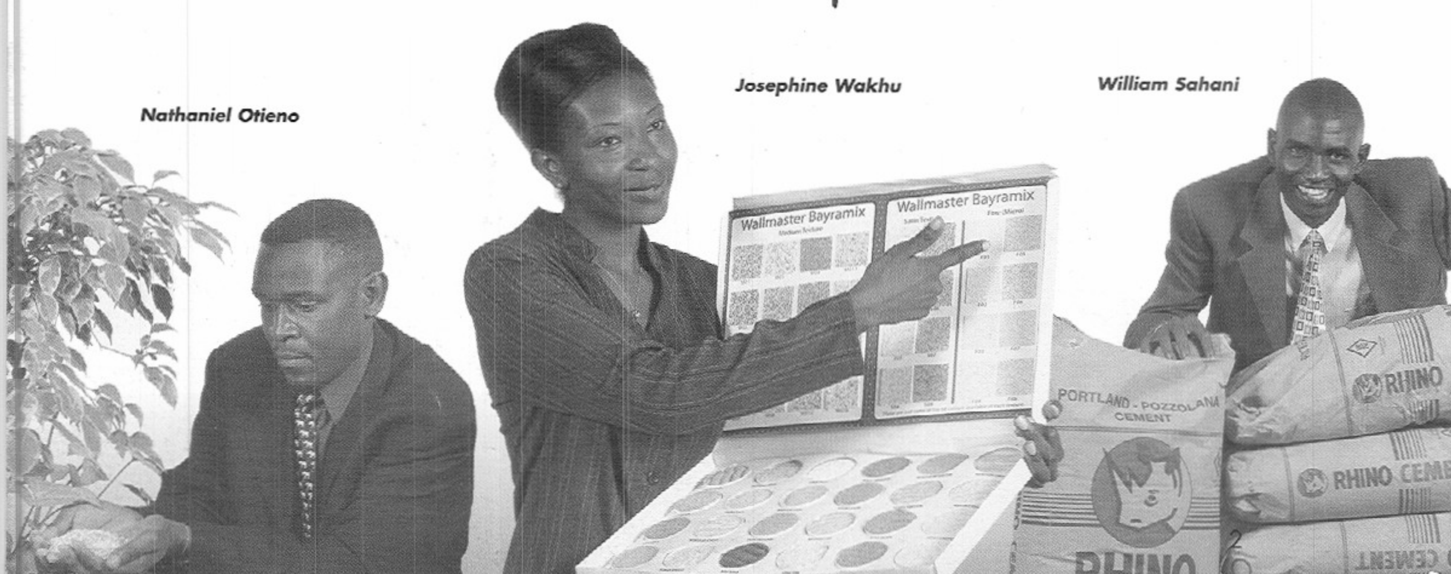
Barclays Bank of Kenya Limited
Barclays Plaza Branch
P O Box 46661
00100 GPO
Nairobi

Credit Agricole Indosuez
P O Box 69562
00400
Nairobi

Stanbic Bank Kenya Limited
Kenyatta Avenue
P O Box 30550
00100 GPO
Nairobi

Advocates

Walker Kontos
George Williamson House
P O Box 60680
Nairobi



Nathaniel Otieno ***Josephine Wakhu*** ***William Sahani***

Chairman's Statement

Once again I am pleased to be able to report substantial growth in turnover and profitability in 2002. This improved performance has resulted from the vision and strategy which was adopted by the Board several years ago.

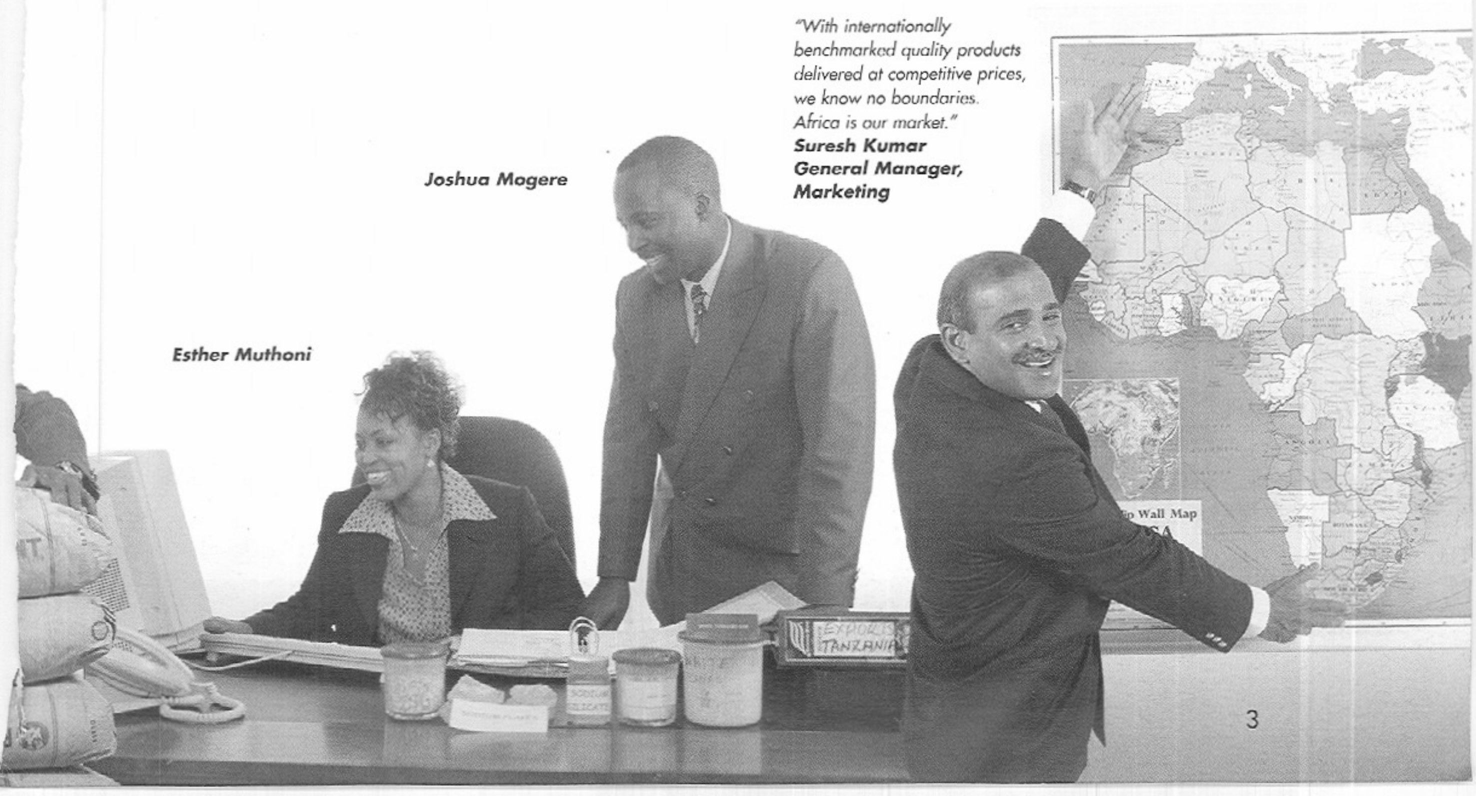
We have maintained steady progress in the cement business, and strengthened the newer businesses of lime and special products. Our more traditional businesses, minerals and sodium silicate, continued to dominate the market, and we achieved increased margins by curtailing costs and increasing plant efficiency. A primary thrust of our growth strategy was to become regionally competitive, and this was steadily achieved as our exports grew from Shs 104m in 1998 to Shs 280 million in 2002, now representing 25% of our turnover.

In 2002 further investment totaling Shs112 million, from cash flow, was made in a new sodium silicate plant at the Athi River factory, and the installation of the new lime plant in Tanzania. Whilst the lime plant will come on-stream in July 2003, with order books already filled, the silicate plant is already working to full capacity, and has contributed greatly to turnover and margins in the first quarter of 2003. We are therefore optimistic and positive in our outlook for the future and consider that we are well placed to continue growing in the domestic and regional markets.

During the year the management team continued to study new business opportunities in line with the Board's strategy. A number of new initiatives have already commenced, one of them being the introduction of a blended NPK fertilizer, under the brand name "MAVUNO". This product has undergone extensive independent trials over the past 2 years and we are confident that it will create a new market in fertilizer use in Kenya, and become a significant growth business for the company over the next few years.

We have further increased the Company's commitment to best practice in environmental management. Several of our staff have participated in seminars and training workshops on environmental issues, and are now implementing the requirements of ISO 14000 Environmental Management. The Company also assisted in developing, through the East African Cement Producers Association, a set of environmental standards based on international cement industry norms. We once again confirm our strongest commitment to environmental management, even beyond Industry Standards.

Early in 2003 the Board also announced a new structure and strategic direction for the company. This essentially entails transforming our current 3 divisions, Minerals, Chemicals and Cement, into 6 strategic business units consisting of Cement, Lime, Sodium



"With internationally benchmarked quality products delivered at competitive prices, we know no boundaries. Africa is our market."
Suresh Kumar General Manager, Marketing

Joshua Mogere

Esther Muthoni

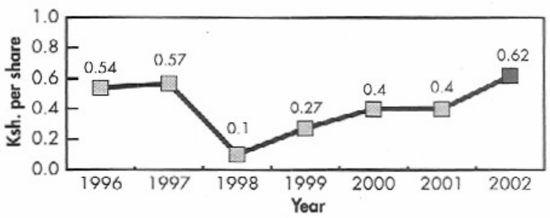
CHAIRMAN'S STATEMENT (CONT'D)

Silicate, Minerals, Special Products and Fertilizers, with emphasis on international cost benchmarking, quality standards and regional presence. In achieving this objective, the biggest challenge is the training and development of executive management. ARM has already embarked on a graduate training scheme, and this year's Annual Report theme "Our People our Strength" reflects the importance we attach to our executive management development. Unfortunately we could not include all of our staff in this report, but have selected only a representative group. At this juncture, I take the opportunity, on behalf of the directors, to thank all our staff who have made such a valuable contribution to our company's growth in the last few years.

2002 RESULTS:

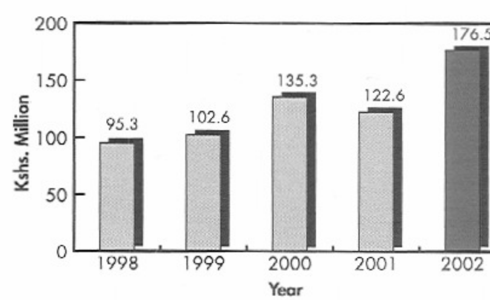
The year closed with a pre-tax profit of Shs 82.1m, an increase of 61% over the previous year. Turnover, at Shs 1,126.4m (2001, Shs 883.7m) saw an increase of 27.5% which is reflected in a gross profit of Shs 350.1m (2001, Shs.281.6m). After adjustments for taxation, net profit for the year was Shs 57.4m, an increase of 70% over the previous year, and improved earnings per share of Shs 0.62. Although the net profit margin increased only from 3.83% in 2001 to 5.10% in 2002, the trend is encouraging. For the past few years we have not been able to pass on any price increases and have had to rely on internal efficiency improvements to increase margins. The effort is continuing and we expect margins to improve further. An important trend to note is our volume of exports which have steadily increased from Ksh.104m in 1998 to Ksh.280m in 2002.

Earnings per share

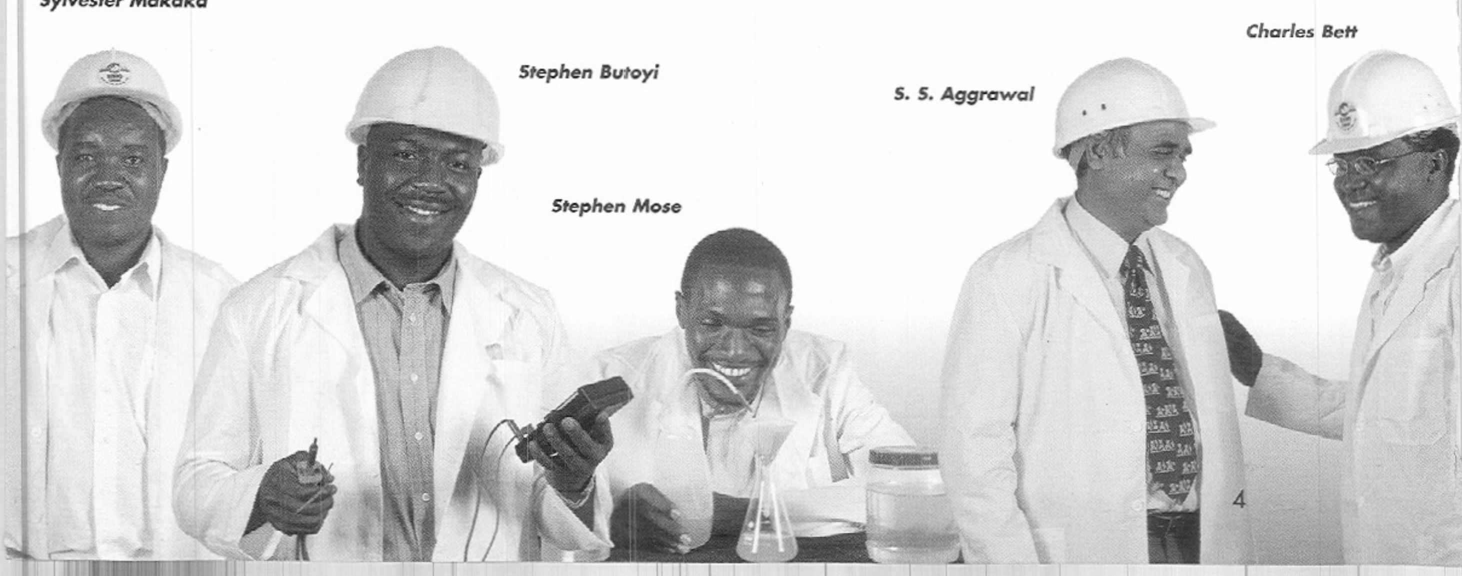


During 2002 the Company's balance sheet strengthened as borrowings were reduced and return on capital employed improved from the previous year. Net indebtedness stood at Shs 95.4m as against Shs 104.7m in 2001. Finance costs have declined for the third consecutive year to Shs 18.8m from Kshs 24.2m, reflecting reduced levels of borrowings and interest rates. Net current assets stood at Shs 116.3m compared to Shs105.8m at the end of the last year. Cash generated from operations increased considerably from Shs 95.3 million in 1998 to Shs 176.5 million in 2002, of which Shs112 million was reinvested in capital projects and replacement of fixed assets.

Cash generated from operations



"I joined ARM in 1995 as a junior electrician. As Chief Electrical Engineer, I now head a team designing and installing switchgears, distribution boards and instrumentation systems for all our on-going projects in Athi River, Kaloleni and Tanga.
Sylvester Makaka



CHAIRMAN'S STATEMENT (CONT'D)

Global Credit Rating Company continued monitoring and evaluating our Company following our initial rating in 2001. In August 2002 they issued greatly improved credit ratings of A- for long term (BBB, 2001) and A2 for short term (A3, 2001). Essentially, the Company's credit rating conveys high credit quality, sound liquidity factors and strong Company fundamentals.

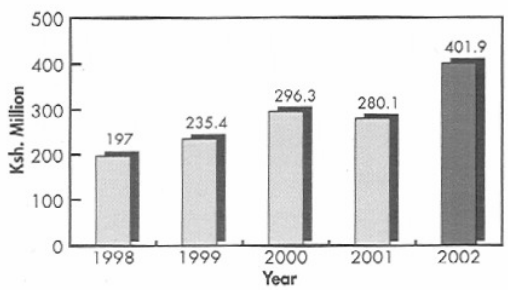
SEGMENTAL PERFORMANCE

Minerals & Chemicals

Division turnover was Shs 401.8m, an increase of 43.4% over last year. The Company continued to export its products into regional markets.

The division contributed 35.7 %(31.6%, 2001) to the Company's turnover and 35.9% (27.9%, 2001) to profit before tax. This improvement in profit was mainly due to better capacity utilization and improvements in internal efficiencies which I mentioned in the Annual Report of 2001.

Minerals and Chemicals Turnover



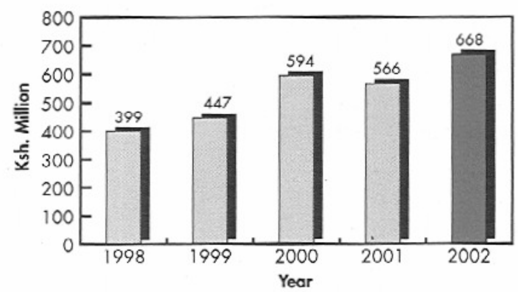
Lime sales in Tanzania grew from Shs 21.9m in 2001 to Shs 83.1m in 2002, an increase of 279% and further substantial growth is expected in 2003.

Cement & Special Products

Rhino Cement continues to be a first choice brand for many building contractors and general users. During 2002 we further streamlined our distribution and customer service. This resulted in increased cement sales in 2002 by 18% against a general domestic consumption growth of 8%. The emphasis in brand building is continuing, especially after the introduction of the new Kenya Bureau of Standards based on European Norms.

Special Products turnover increased by 42%, resulting mainly from the introduction of new products and increased sales from the regional markets.

Cement Division Turnover



YEAR 2003 PROSPECTS

As mentioned earlier, we have already started to see the benefits of increased turnover and profit margins from the investments made last year. We expect further growth from new capacities in lime when the Tanga plant commences production in July this year, and sodium silicate by the end of the year. The new fertilizer product has been launched and is also expected to make a considerable contribution to turnover this year.

DIVIDEND

An interim dividend of 30 cents per share was paid by the Company on 29th May 2002. The Directors recommended a final dividend of 10 cents per share in respect of year 2002, making a total dividend payable for the year of 40 cents per share.

The Board further resolved to declare an interim dividend for the year 2003 of 40 cents per share payable to all shareholders on the register of members as of 30th May 2003. This interim dividend, together with the final in respect of year 2002, will be paid in the 2nd week of June 2003, immediately after our Annual General Meeting on 5th June 2003.

Brian Rogers
Chairman

Statement on Corporate Governance

The Company is committed to the new standards of Corporate Governance and has made additional disclosures in the Accounts for 2002 in recognition of this commitment.

THE BOARD OF DIRECTORS.

The Board is comprised of five non-executive and three executive members. The non-executive members are independent of management and are free of any relationship which could materially interfere with the exercise of their independent judgment. Five members of the Board retire by rotation every year, and may offer themselves for re-election, if eligible in terms of the Company's Articles of Association.

THE ROLE OF THE BOARD

The Board recognizes, and emphasizes the role of good Corporate Governance in corporate performance, maximization of shareholder value, and the protection of shareholders rights. The Board will therefore continue its Corporate Governance policies, including the monitoring of management performance, to ensure growth and to achieve the long-term objectives of shareholders.

BOARD MEETINGS

The Board meets a minimum of once every quarter, but also meets as required to consider specific issues.

BOARD COMMITTEES

The Board delegates some of its responsibilities to Board Committees. The committees meet on a regular basis and make recommendations to the Board on matters delegated to them.

AUDIT COMMITTEE

The committee was appointed in 2001 and comprises three non-executive directors, with the attendance of senior management as required. Their terms of reference include a review of the Company's half yearly and annual financial statements before submission to the Board, internal controls, the appointment of external auditors and their remuneration, and the scope and nature of the external audit.

Other committees in place are the Nomination and Remuneration Committees.

DIRECTORS BENEFITS AND LOANS

The total amount of Directors remuneration for the year is disclosed on page 17. There were no loans to the directors during the year.

25 March 2003

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The principal activities of the company are the manufacture and sale of cement, mining and processing of industrial minerals and chemicals, and trading in other building products.

RESULTS	**SH'000**
Profit before taxation	82,136
Taxation	(24,746)
Net profit for the year	57,390

DIVIDENDS

An interim dividend of Sh 0.30 per share was paid by the directors on the paid up share capital on 29 May 2002. The directors propose a final dividend of Sh 0.10 per share in respect of the year. The total dividend in respect of the year amounted to Sh 0.40 per share.

DIRECTORS

The directors who held office during the year are shown on page 2.

In accordance with the Article 95 of the Company's Article of Association, P J Rune retires by rotation and, being eligible, offers himself for re-election.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

By order of the Board

R.R. Vora
Secretary
Nairobi
25 March 2003

Board of Directors
Standing left to right: S Bhatia, M Ngunze, P Paunrana, R Vora, D Sikand
Seating left to right: P Rune, B Rogers, H Paunrana, W Murungi

Statement of Directors' Responsibilities

The companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Brian Rogers
Director

Pradeep Paunrana
Director

25 March 2003

Report Of The Auditors

To The Members Of Athi River Mining Limited

Certified Public Accountants (Kenya)
"Kirungii"
Ring Road, Westlands
P. O. Box 40092
Nairobi - 00100 GPO
Kenya

Telephone: + (254-2) 444 1344/05-12
Facsimile: + (254-2) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

Deloitte & Touche

We have audited the financial statements on pages 10 to 27 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 8, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2002 and of its profit and cashflows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.

Deloitte & Touche

Nairobi
25 March 2003

INCOME STATEMENT

for the year ended 31 December 2002

	Note	2002 Sh'000	2001 (restated) Sh'000
TURNOVER		1,126,385	883,740
COST OF SALES		(776,279)	(602,093)
GROSS PROFIT		350,106	281,647
OTHER OPERATING INCOME		465	2,643
DISTRIBUTION COSTS		(132,239)	(108,620)
ADMINISTRATIVE EXPENSES		(116,769)	(98,669)
OTHER OPERATING EXPENSES		(605)	(1,746)
OPERATING PROFIT	3	100,958	75,255
FINANCE COSTS (NET)	4	(18,822)	(24,228)
PROFIT BEFORE TAXATION		82,136	51,027
TAXATION	6	(24,746)	(17,222)
NET PROFIT FOR THE YEAR		57,390	33,805
BASIC EARNINGS PER SHARE	7	Sh 0.62	Sh 0.40

BALANCE SHEET

as at 31 December 2002

	Note	2002 Sh'000	2001 (restated) Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	8	910,926	858,666
Operating lease prepayments	9	2,484	2,551
Deferred expenditure	10	9,856	14,784
		923,266	876,001
Current assets			
Inventories	11	236,607	185,679
Trade and other receivables	12	253,113	193,891
Cash and bank balances		2,168	5,222
		491,888	384,792
Total assets		1,415,154	1,260,793
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	465,000	465,000
Share premium		241,477	241,477
Capital reserve		100,599	99,968
Revenue reserve		46,426	26,867
Proposed dividends		9,300	-
		862,802	833,312
Non current liabilities			
Borrowings	14	20,833	-
Deferred income taxes	15	155,932	148,529
		176,765	148,529
Current liabilities			
Trade and other payables	16	280,458	160,032
Borrowings	14	76,763	109,970
Compensating tax payable		221	7,998
Current tax payable		17,343	-
Unclaimed dividends		802	952
		375,587	278,952
Total equity and liabilities		1,415,154	1,260,793

The financial statements on pages 10 to 27 were approved by the board of directors on 25 March 2003 and were signed on its behalf by:

B Rogers
P Paunrana **- Directors**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2002

	Share capital Sh'000	Share Premium Sh'000	Convertible bond Sh'000	Capital reserve Sh'000	Revenue reserve Sh'000	Proposed dividends Sh'000	Total Sh'000
At 1 January 2001 as previously reported	375,000	154,947	189,000	104,771	13,992	-	837,710
Prior year adjustments:							
Reversal of revaluation surplus on leasehold land	-	-	-	(7,293)	-	-	(7,293)
Deferred taxation thereon	-	-	-	2,187	-	-	2,187
Reversal of excess amortisation and deferred tax	-	-	-	(273)	911	-	638
Depreciation on buildings previously not charged	-	-	-	-	(5,238)	-	(5,238)
Deferred tax thereon	-	-	-	-	1,571	-	1,571
As restated	375,000	154,947	189,000	99,392	11,236	-	829,575
Bond converted into shares	90,000	90,000	(180,000)	-	-	-	-
Convertible bond 5% interest cost refund	-	-	(9,000)	-	9,000	-	-
Convertible bond transaction costs	-	(3,470)	-	-	-	-	(3,470)
Deferred tax on revaluation	-	-	-	576	(576)	-	-
Net profit for the year	-	-	-	-	33,805	-	33,805
Interim dividend paid	-	-	-	-	(18,600)	-	(18,600)
Compensating tax	-	-	-	-	(7,998)	-	(7,998)
At 31 December 2001	465,000	241,477	-	99,968	26,867	-	833,312
At 1 January 2002 (as previously reported)	465,000	241,477	-	105,402	31,660	-	843,539
Prior year adjustments:							
Reversal of revaluation surplus on leasehold land	-	-	-	(7,293)	-	-	(7,293)
Deferred tax thereon	-	-	-	2,187	-	-	2,187
Reversal of excess amortisation and deferred tax thereon				(328)	1,094	-	766
Depreciation on building not previously charged	-	-	-	-	(6,285)	-	(6,285)
Deferred tax thereon	-	-	-		1,886	-	1,886
Deferred tax underprovision					(1,488)	-	(1,488)
As restated	465,000	241,477	-	99,968	26,867	-	833,312
Deferred tax on revaluation	-	-	-	631	(631)	-	
Net profit for the year	-	-	-	-	57,390	-	57,390
Interim dividend paid	-	-	-	-	(27,900)	-	(27,900)
Proposed dividends	-	-	-	-	(9,300)	9,300	-
At 31 December 2002	465,000	241,477	-	100,599	46,426	9,300	862,802

The effect of change in policy on accounting for leasehold land and buildings to ensure compliance with International Accounting Standards No. 17 on leases and No. 16 on property, plant and equipment has resulted in the reclassification of leasehold land from property and equipment to operating lease prepayments, the reversal of revaluation surplus relating to leasehold land and the recognition of prior years depreciation charge on buildings not accounted for in the past.

CASH FLOW STATEMENT

for the year ended 31 December 2002

	Note	2002 Sh'000	2001 Sh'000
Operating activities			
Cash generated from operations	17(a)	176,518	122,620
Interest paid		(18,527)	(24,010)
Compensating tax paid		(7,777)	-
Net cash generated from operating activities		150,214	98,610
Investing activities			
Purchase of property, plant and equipment		(112,539)	(51,402)
Deferred expenditure		-	(390)
Proceeds from disposal of property, plant and equipment		350	3,686
Net cash used in investing activities		(112,189)	(48,106)
Financing activities			
Finance lease instalment payments		-	(1,567)
Loans received	17(c)	90,000	51,498
Repayment of amounts borrowed	17(c)	(68,721)	(38,030)
Dividends paid		(28,050)	(18,146)
Net cash used in financing activities		(6,771)	(6,245)
Increase in cash and cash equivalents		31,254	44,259
At 1 January		(49,182)	(93,441)
At 31 December	17(b)	(17,928)	(49,182)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are set out below.

Basis of accounting

The company prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Revenue recognition

Revenue is recognised upon delivery of goods to customers and represents sales net of value added tax.

Taxation

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation.

Depreciation

No depreciation is provided on freehold land.

Depreciation is calculated to write off the cost or valuation of other property, plant and equipment in equal annual instalments over their estimated useful lives. The annual rates in use are:

Buildings	2.5%
Heavy commercial vehicles and quarrying equipment	10%
Plant, machinery and equipment	5% to 7.5%
Motor vehicles	10%
Furniture and fittings	7.5%
Computer hardware	20%

Operating lease prepayments

The company has implemented fully the requirements of IAS 17 on accounting for leases in the current year financial statements. Under this standard, cost of acquiring leasehold land are treated as operating lease prepayments and amortised over the lease period. This has resulted in the reclassification of leasehold land from property, plant and equipment to operating prepaid rentals within the balance sheet. The change in policy has been applied retrospectively and comparative figures restated accordingly.

Capital work in progress

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate property and plant categories once the project is completed and commissioned.

Deferred expenditure

Expenditure incurred in developing new products are deferred and written off over a period of 4 years.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

1 ACCOUNTING POLICIES (CONTINUED)

Inventories

Finished goods inventories are stated at the lower of cost and net realisable value. Cost comprises direct production costs, rents, royalties, labour and relevant transport costs. Work in progress comprises raw materials, direct labour, other direct costs and related production overheads.

Raw materials and other inventories are stated at purchase cost while spares inventories are stated at the lower of cost and directors' valuation. Directors' valuation is based on replacement cost values.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair values on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.
Rental payments in respect of operating leases are charged to the income statement in the period to which they relate.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Pension obligations

The company contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and were fixed at Sh 200 per employee. The company's contributions are charged to the income statement in the year to which they relate.

Provision for liabilities and charges

Employees' entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued on the balance sheet date.

Segment reporting

Segmental information is based on the primary format representing two business segments, cement and minerals and chemicals.
Segment results include revenue and expenses directly attributable to a segment.
Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one period (property, plant and equipment).

Financial instruments

Financial assets

Financial assets are recognised initially at cost using settlement date accounting. Receivables held to maturity investments are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value. Gains or losses on changes in fair value of each category of asset is reported net in the income statement in the year in which it arises. All financial assets are subject to review for impairment at the year end.

Financial liabilities

Financial liabilities are recognised initially at cost, and subsequently measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

1 ACCOUNTING POLICIES (CONTINUED)

Impairment

At each balance sheet date, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount of the asset is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Subsidiary company

The company has registered a subsidiary in Tanzania, Athi River Mining (T) Ltd.
Production has not commenced and the subsidiary remained dormant during the year. Consequently, no consolidated financial statements have been prepared. The cost of development of the factory amounting to Sh 59,700,000 is included in property, plant and equipment.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular comparative figures have been adjusted for change in presentation to ensure compliance with International Accounting Standard No. 17 on Leases and No. 16 on property, plant and equipment.

2 SEGMENTAL REPORTING

(a) Primary reporting format – Business segments

	CEMENT AND SPECIAL PRODUCTS		MINERALS AND CHEMICALS		TOTAL	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
Sales & other income	724,979	606,274	401,871	280,109	1,126,850	886,383
Expenditure	672,386	569,529	372,328	265,827	1,044,714	835,356
Profit before taxation	52,593	36,745	29,543	14,282	82,136	51,027
Taxation	(15,332)	(14,730)	(9,414)	(2,492)	(24,746)	(17,222)
Profit after taxation	37,261	22,015	20,129	11,790	57,390	33,805
Assets	905,910	798,941	509,244	461,852	1,415,154	1,260,793
Liabilities	368,095	259,331	184,257	168,150	552,352	427,481
Depreciation and amortisation	32,448	31,510	27,415	26,804	59,863	58,314
Capital expenditure	1,791	17,762	69,954	14,547	71,745	32,309

(b Secondary reporting format – Geographical segments

75% (2001- 85%) of the company's sales are made in the local market (Kenya).

Notes To The Financial Statements (cont'd)

for the year ended 31 December 2002

	2002 Sh'000	2001 Sh'000
3 Operating Profit		
The operating profit is arrived at after charging:		
Depreciation and amortisation	59,863	57,450
Operating lease rentals – property	1,800	1,800
Directors' emoluments:		
Fees	1,776	1,776
Other emoluments	16,443	12,947
Staff costs (Note 5)	84,655	82,412
Auditors' remuneration	1,145	1,151
Loss on disposal of motor vehicles	133	516

4 Finance Costs (Net)

	2002 Sh'000	2001 Sh'000
Interest payable:		
- Loans	13,066	7,544
- Bank overdrafts	5,223	12,263
- Finance leases	-	157
- Commercial paper	238	296
- Convertible bond	-	3,750
	18,527	24,010
Exchange adjustment:		
- unrealised losses	655	285
- realised gains	(360)	(67)
	295	218
	18,822	24,228

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

		2002	2001
		Sh'000	Sh'000
5	**STAFF COSTS**		
	Wages and salaries	82,416	80,228
	Social security cost (NSSF)	1,036	1,019
	Termination benefits	371	1,021
	Leave pay	832	144
		84,655	82,412
	Executive directors	16,443	12,947
		101,098	95,359
		No.	No.
	The average number of staff employed by the company during the year was:		
	Full time	328	201
	Part time	280	402
		608	603

		Sh'000	Sh'000
6	**TAXATION**		
(a)	Tax expense		
	Current taxation based on adjusted profit at 30%	17,343	-
	Deferred tax expense (note 15)	7,403	17,222
		24,746	17,222
(b)	Reconciliation of tax based on accounting profit to tax expense		
	Accounting profit before taxation	82,136	51,027
	Tax at the applicable rate of 30%	24,640	15,308
	Tax effect of expenses not deductible for tax purposes	1,584	2,317
	Tax effect of income not taxable	(1,478)	(403)
		24,746	17,222

7 BASIC EARNINGS PER SHARE

Basic earnings per share has been calculated on the profit after taxation of Sh 57,390,000 (2001 - Sh 33,805,000) divided by the average number of shares in issue during the year of 93,000,000 (2001- 85,500,000). Diluted earnings per share is the same as basic earnings per share. The comparative earnings per share has been computed using the average number of shares in issue last year.

Notes To The Financial Statements (cont'd)

for the year ended 31 December 2002

8 Property, Plant And Equipment

	Freehold land and Buildings Sh'000	Leasehold land and buildings Sh'000	Heavy commercial vehicles and quarrying equipment Sh'000	Computer hardware plant, machinery, motor vehicles, furniture and fittings Sh'000	Capital work in progress Sh'000	Total Sh'000
Cost or valuation						
At 1 January 2002	65,848	171,497	143,150	723,735	73,875	1,178,105
Reclassification(note 9)	-	(10,000)	-	-	-	(10,000)
At 1 January as restated	65,848	161,497	143,150	723,735	73,875	1,168,105
Additions	386	93	6,429	9,808	95,823	112,539
Disposals	-	-	-	(500)	-	(500)
Transfers	2,974	-	-	15,901	(18,875)	-
At 31 December 2002	69,208	161,590	149,579	748,944	150,823	1,280,144
Comprising						
At cost	18,275	4,198	131,571	618,889	150,823	923,756
At valuation 1992	-	-	18,008	18,819	-	36,827
At valuation 1994	-	-	-	111,236	-	111,236
At valuation 1996	50,933	157,392	-	-	-	208,325
	69,208	161,590	149,579	748,944	150,823	1,280,144
Depreciation						
At 1 January 2002	-	21,081	72,227	211,096	-	304,404
Adjustment for prior year underprovision	6,285	-	-	-	-	6,285
Reclassification(note 9)	-	(1,250)	-	-	-	(1,250)
At 1 January 2002 (as restated)	6,285	19,831	72,227	211,096	-	309,439
Charge for the year	1,047	4,040	14,625	40,084	-	59,796
Eliminated on disposals	-	-	-	(17)	-	(17)
At 31 December 2002	7,332	23,871	86,852	251,163	-	369,218
Net book value						
At 31 December 2002	61,876	137,719	62,727	497,781	150,823	910,926
At 31 December 2001 as restated	59,563	141,666	70,923	512,639	73,875	858,666
Historical cost net book value						
At 31 December 2002	30,468	55,614	55,688	439,024	150,823	731,617
At 31 December 2001 as restated	27,192	58,321	63,884	453,899	73,875	677,171

Leasehold land has been reclassified to operating lease prepayments and related revaluation surplus reversed in line with the requirements of International Accounting Standard No 17 as disclosed on note 9.

The capital work in progress includes Sh 59,700,000 relating to the on-going construction of the Tanga Lime project.

The company assets are pledged to secure credit facilities with various banks as disclosed in note 14.

Notes To The Financial Statements (cont'd)

for the year ended 31 December 2002

9 Operating Lease Prepayments

	Sh'000
COST	
Reclassification from property, plant and equipment (Note 8)	10,000
Reversal of revaluation surplus	(7,293)
Restated as at 1January 2001 and at 31 December 2002	2,707
AMORTISATION	
Reclassification from property, plant and equipment(Note 8)	1,250
Reversal of excess amortisation	(1,094)
Restated at 1 January 2001	156
Amortisation for the year	67
At 31 December 2002	223
NET BOOK VALUE	
At 31 December 2002	2,484
At 31 December 2001(restated)	2,551

Leasehold land has been reclassified from property, plant and equipment to operating lease prepayments and related revaluation surplus reversed in line with the requirements of International Accounting Standards No 17.

Notes To The Financial Statements (cont'd)

for the year ended 31 December 2002

10 Deferred expenditure

	2002 Sh'000
At 1 January 2002	14,784
Additions	-
At 31 December 2002	14,784
Amortisation:	
At 1 January 2002	-
Charge for the year	4,928
At 31 December 2002	4,928
Net book value at 31 December 2002	9,856
Net book value at 31 December 2001	14,784

Expenditure incurred in developing new products are deferred and written off over a period 4 years.

11 Inventories

	2002 Sh'000	2001 Sh'000
Raw materials	126,043	47,696
Work in progress	27,271	29,434
Finished goods	37,555	50,943
Stores, spares and laboratory	45,738	57,606
	236,607	185,679

12 Trade and other receivables

	2002 Sh'000	2001 Sh'000
Trade receivables	237,580	177,803
Other receivables	12,342	9,165
Prepayments	3,191	6,923
	253,113	193,891

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

13 SHARE CAPITAL

	2002 Sh'000	2001 Sh'000
Authorised: 94,000,000 ordinary shares of Sh 5 each	470,000	470,000
Issued and fully paid: 93,000,000 (2001 – 93,000,000) ordinary shares of Sh 5 each	465,000	465,000

	2002 Number of shares	Sh'000	2001 Number of shares	Sh'000
At 1 January	93,000	465,000	75,000	375,000
Bond converted into shares	-	-	18,000	90,000
At 31 December	93,000	465,000	93,000	465,000

14 BORROWINGS

	2002 Sh'000	2001 Sh'000
Bank overdrafts	16,231	54,404
Bank loans	77,500	52,962
Directors' loans	-	2,604
Commercial paper	3,865	-
	97,596	109,970

The borrowings are repayable as follows:

	2002 Sh'000	2001 Sh'000
On demand or within one year	76,763	109,970
In the second year	10,417	-
After 2 years	10,416	-
	97,596	109,970
Less: amounts due for settlement within one year	76,763	109,970
Amount due for settlement after one year	20,833	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

14 BORROWINGS (CONTINUED)

Analysis of borrowing by currency

	Borrowings in US$	Kshs equivalent Sh'000	Borrowing in local currency Sh'000	Total Borrowing Sh'000
2002				
Bank overdrafts	-	-	16,231	16,231
Bank loans	-	-	77,500	77,500
Commercial paper	50,000	3,865	-	3,865
At 31 December 2002	50,000	3,865	93,731	97,596
2001				
Bank overdrafts	-	-	54,404	54,404
Bank loans	-	-	52,962	52,962
Directors' loans	-	-	2,604	2,604
At 31 December 2001	-	-	109,970	109,970

	2002 %	2001 %
The average interest rates paid were as follows:		
Bank overdrafts	13.71	20.15
Bank loans	11.63	13.74
Commercial paper (USD)	3.00	-
Directors loans	-	Nil

Details of securities for loans and overdrafts

The general short term banking, letters of credit and foreign currency facilities with Stanbic Bank Kenya Limited are secured by a fixed and floating debenture over all the company's assets for Sh 135,978,000 and a fixed charge on a motor vehicle for USD 240,000.

The overdraft facility, commercial paper and Letter of credit with Credit Agricole Indosuez Limited are secured by a pari passu debenture for Sh 60,000,000 over all the assets of the Company to be increased to Sh 80m and a supplementary charge to the debenture over 23 properties of the company for Sh 80m.

The overdraft and loan facilities with Barclays Bank of Kenya Limited are secured by a legal charge over properties (LR Nos 119, 120, 151, 539, 552, 554, 555, 556, 576, 577, 578, 582, 666, 670 and 672) in Mbwaka/Maereni and debenture of Sh 120m over all the assets of the Company.

The directors' loans are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

15 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

	2002 Sh'000	2001 Sh'000
The net deferred taxation liability is attributable to the following items:		
Accelerated capital allowances	136,615	141,011
Tax losses carried forward	-	(12,527)
Unrealised exchange losses	88	(65)
Revaluation surplus	19,592	20,224
Leave pay provision	(363)	(114)
	155,932	148,529
The movement on the deferred tax account is as follows:		
At 1 January – as previously reported	150,786	134,792
Reversal of deferred tax relating to revaluation surplus on leasehold land	(1,859)	(1,914)
Reversal of deferred taxation on buildings not previously depreciated	(1,886)	(1,571)
Prior year underprovision – deferred tax	1,488	-
As restated	148,529	131,307
Income tax expense – note 6(a)	7,403	17,222
At 31 December	155,932	148,529

16 TRADE AND OTHER PAYABLES

	2002 Sh'000	2001 Sh'000
Trade payables	271,933	152,793
Other payables and accruals	8,047	7,239
Directors' accounts	478	-
	280,458	160,032

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

17 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations:

	2002 Sh'000	2001 Sh'000
Operating profit	100,958	75,255
Adjustments:		
Depreciation	59,796	58,247
Amortisation	67	67
Loss on disposal of motor vehicles	133	516
Realised exchange gains	360	67
Amortisation of deferred expenditure	4,928	4,928
Operating profit before working capital changes	166,242	139,080
Increase in inventories	(50,928)	(2,001)
Increase in trade and other receivables	(59,222)	(14,693)
Increase in trade and other payables	120,426	234
Cash generated from operations	176,518	122,620

(b) Analysis of balances of cash and cash equivalents

	2002 Sh'000	2001 Sh'000
Cash and bank balances	2,168	5,222
Commercial paper	(3,865)	-
Bank overdrafts	(16,231)	(54,404)
At 31 December	(17,928)	(49,182)

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from the date of advance.

(c) Loans

	2002 Sh'000	2001 Sh'000
At 1 January	55,566	41,813
Repayment	(68,721)	(38,030)
Received	90,000	51,498
Unrealised exchange loss	655	285
	77,500	55,566

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

18 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The following transactions were carried out with related parties:

	2002 Sh'000	2001 Sh'000
(a) Purchase of services:		
Athi River Group Limited	1,800	1,800

There were no outstanding balances in respect of Athi River Group Limited at year end.

Athi River Group Limited owns the head office building which is rented by the company. This company is owned by H J Paunrana and P H Paunrana, who are both directors of the company.

(b) Cement raw material (clinker) purchases during the year from Bamburi Cement Limited amounted to Sh 194,316,228 (2001 – Sh 162,139,739). The outstanding balance at year end due to Bamburi Cement Limited was Sh 40,837,691 (2001 – Sh 51,583,088). This balance is included under Trade and other payables (note 16). Bamburi Cement Limited is both a shareholder and a director of the company.

	2002 Sh'000	2001 Sh'000
(c) Loans from Directors		
At 1 January	2,604	820
Advances	23,590	15,490
Repayments	(26,194)	(13,706)
At 31 December	-	2,604

Loans from directors are unsecured, interest free with no fixed repayment terms.

(d) All transactions with related parties are at arm's length and in the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2002

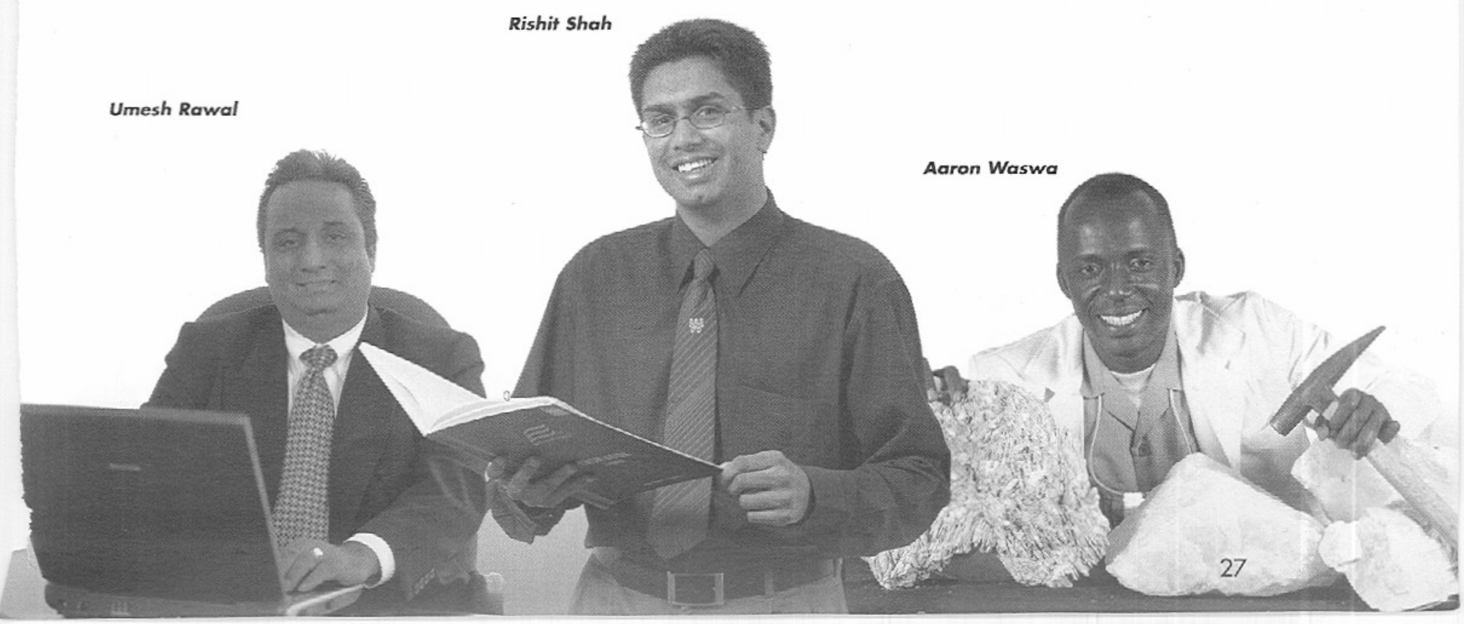
	2002 Sh'000	2001 Sh'000
19 CAPITAL COMMITMENTS		
Authorised and contracted for	56,629	29,100
Authorised but not contracted for	39,200	62,400
20 CONTINGENT LIABILITIES		
Guarantees	25,950	25,450

21 INCORPORATION

The company is a limited liability company registered in Kenya under the Companies Act.

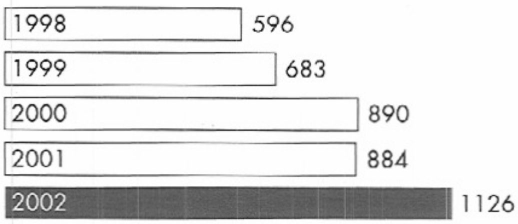
22 CURRENCY

The financial statements are presented in Kenya Shillings thousands (Sh'000).

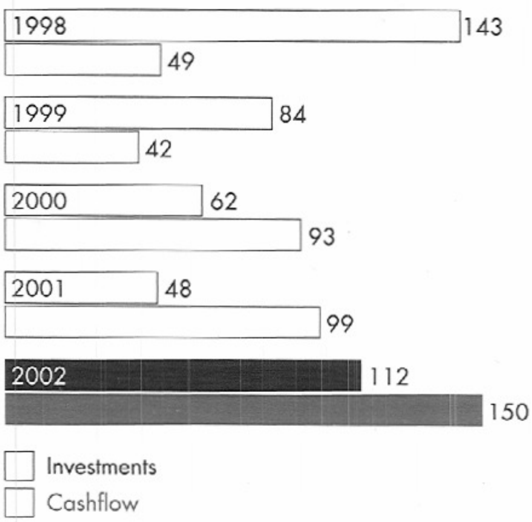


Graphical Highlights

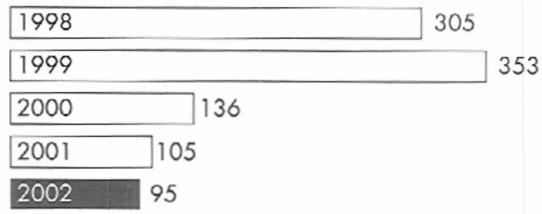
Turnover (Ksh. Millions)



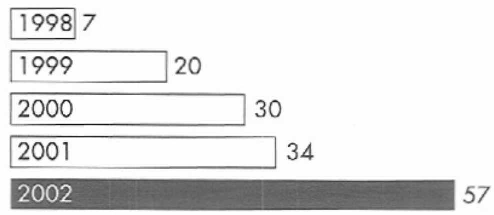
Investments and net cashflow from operating activities (Ksh. Millions)



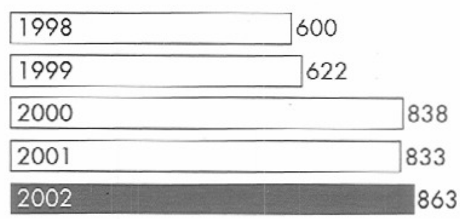
Net indebtedness (Ksh. Millions)



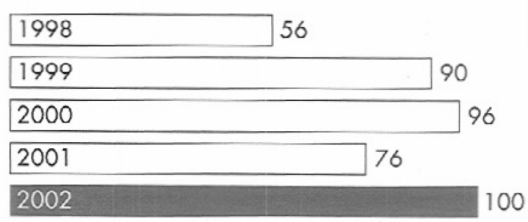
Profits attributable to shareholders (Ksh. Millions)

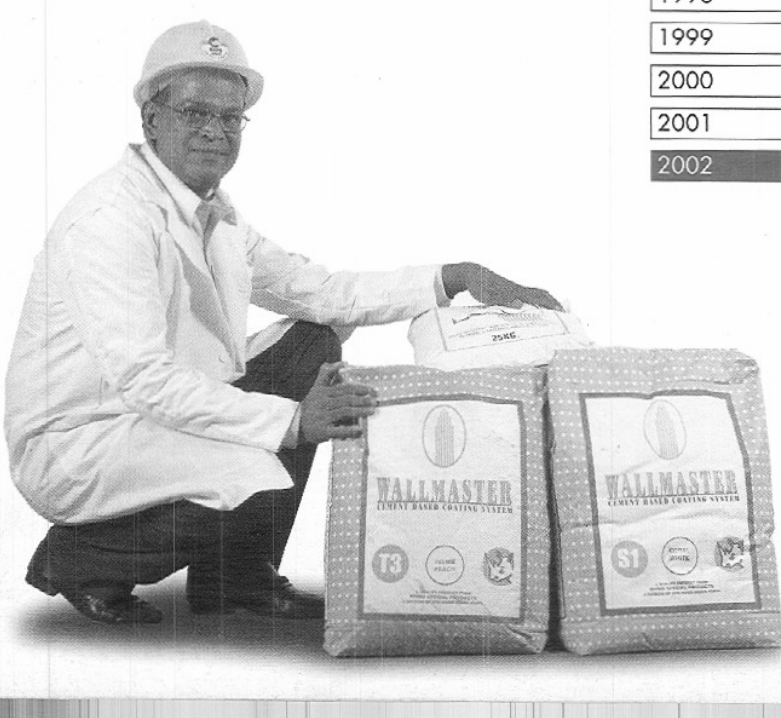


Shareholder equity (Ksh. Millions)



Operating income (Ksh. Millions)





"I joined ARM in 1984 when the annual turnover was only Ksh. 9.0 million. My job in Research and Development has been full of challenges but enormously rewarding. The best part is always to look forward for the next product line to see ARM's turnover increase by another Ksh.100 million".
Eugene Fernandes
Factory Manager, Athi River

AFM

PROXY FORM

To: The Secretary, Athi River Mining Limited
P O Box, 41908, 00100 GPO Nairobi, Kenya

I/ We ______________________________

of ______________________________

being a member(s) of the above named company, hereby appoint: ______________________________

of ______________________________

or failing him ______________________________

of ______________________________

as my/ our proxy to vote for me/ us and on my/ our behalf at the Annual General Meeting of the company to be held on the 5th of June 2003 and at any adjournment thereof.

Number of shares held ______________________________

Account number of member ______________________________

As witness my/ our hand this ______________ day of ______________ 2003

Signed ______________________________

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead.
   A proxy need not be a member of the company.

2. In case of a member being a corporation, this form must be completed either under its common seal, or under the hand of an officer or duly authorised attorney.

3. To be valid the proxy form must be deposited at the registered office of the company not less than 48 hours before the time fixed for the meeting.

4. If you wish you may appoint the chairman of the meeting as your proxy.