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ATHI RIVER MINING LIMITED

2008 ANNUAL REPORT & FINANCIAL STATEMENTS



INDUSTRY

ENVIRONMENT

SOCIAL RESPONSIBILITY

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SOCIAL RESPONSIBILITY

Community Members at Kaloleni Cement Plant



ENVIRONMENT

Tree Planting at Kaloleni Cement Plant



Annual Report and Financial Statements

For the Year Ended 31 December 2008

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Notice of the Annual General Meeting

To all shareholders

NOTICE is hereby given that the 2009 Annual General Meeting will be held at the Crystal Ballroom, Laico Regency Hotel, Nairobi, on Tuesday, June 11, 2009 at 11.30 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 9th June 2008.
3. To receive, consider and adopt the Balance Sheet and Accounts for the year ended 31st December 2008 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 31st December 2008.
5. To approve the payment of a first and final dividend of Kshs.1.25 per share in respect of the year ended 31st December 2008.
6. To re-elect Directors:
 - i) Bamburi Cement Limited retire by rotation under the provisions of Article 95 of the Articles of Association and, being eligible, offer themselves for re-election.
 - ii) Dr. Michael Gondwe retires by rotation under the provisions of Article 95 of the Articles of Association and, being eligible, offers himself for re-election.
 - iii) Mr. H. J. Paurana, a Director who is over 70 years retires by rotation. Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186(5) of the said Act, to be considered and if thought fit, passed by the members:

"That H. J. Paurana, a Director who is over 70 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
7. To note that Deloitte & 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

Date: 31st March 2009

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.

Directors and Corporate Information

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Directors	Mr P J Ruñe	-	Chairman
	Mr H J Paunrana	-	Vice-Chairman
	Mr P H Paunrana	-	Managing Director
	Mr S L Bhatia*	-	Deputy Managing Director
	Mr T S Kumar*	-	Alternate to H J Paunrana
	Mr W Murungi		
	Mr T Mbathi		
	Dr M Gondwe**		
	Bamburi Cement Limited		

* Indian

** Zambian

Audit committee	Mr T Mbathi	-	Chairman
	Mr W Murungi		

Nomination & Remuneration committee	Mr T Mbathi	-	Chairman
	Mr W Murungi		

Secretary

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

Registered office

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

Auditors

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

Bankers

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

Bank of Africa Kenya Limited
Taifa Road
P O Box 69562
00400
Nairobi

CFC Stanbic Bank Limited
Kenyatta Avenue
P O Box 30550
00100
Nairobi

Chairman's Statement

It is my pleasure to present the Company's Annual Report for the year ended 31st December 2008. However, my first duty is to pay tribute to Brian Rogers who passed away after a short illness in August last year. Brian Rogers joined the ARM Board as Chairman in 1998 and for the next ten years steered the Company through its difficult days to the recent years of rapid growth. His contribution at the Board level and particularly his advisory role to the management was critical during these past ten years, as the Company transformed from a small, newly listed business to a large corporate with a growing regional footprint. On behalf of the Company and all the staff, I acknowledge a debt of gratitude to Brian Rogers.

Although we have experienced many economic and political uncertainties in Kenya in the past, 2008 was a particularly difficult year. The post election violence and political fears in the first two months of the year required enormous resilience and an unwavering faith in the political future of the country. I am pleased to say that the entire Board and management of the Company amply demonstrated both, and provided leadership at this critical juncture, not only to the Company employees and staff, but also to our suppliers and customers. Our Managing Director Pradeep Paunrana and other members of the Board played a vital role, together with other private sector leaders, in facilitating dialogue between the two main political leaders during those fretful days. I am confident that our political system and institutions will emerge stronger from the experience and, that the Grand Coalition Government will lay a strong foundation for continuing growth and prosperity in this country.

The year 2008 was challenging for many other reasons too. During the post election turmoil, many businesses were affected as supply lines and distribution channels were disrupted. The global commodity markets continued to play havoc and prices rose on a daily basis, leading to an unprecedented increase in the cost of fuel, power and raw materials that resulted in a significant increase in the cost of production. In the middle of the year, the Kenya Shilling strengthened against the US Dollar, leading to a reduction in the Kenya shilling revenue of our exports. And finally, towards the end of the year, the global financial crisis began to impact most businesses, and cast long shadows on our capacity expansion and capital raising plans.

2008 Annual Results

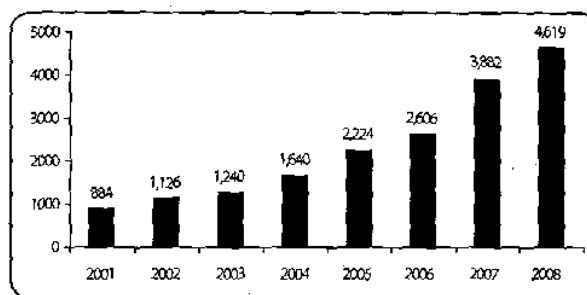
I am proud to say that the management team performed exceptionally well during this period of enormous uncertainty. Not only did they take proactive measures to avert any loss to the Company and to protect the margins, but also significantly increased the turnover and net profit for the year.

Despite these challenges, the management team also successfully raised the necessary funding and embarked on a major strategic expansion of our cement business. At Kaloleni, the cement capacity is being doubled with a total investment of Ksh 1.5 billion. This new capacity will come on stream in 2010, whilst the Tanzania cement production is expected to commence in 2011.

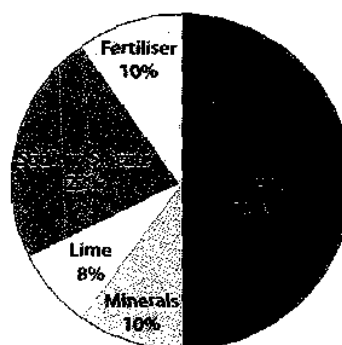
For this outstanding achievement, on behalf of the Board, I congratulate the management team and the entire staff for their contribution to the Company's performance in 2008.

During the year, the group turnover grew by 19% to Ksh. 4.6 billion over the previous year. All divisions of the group recorded increased sales with major improvements in the lime, minerals and fertilizer divisions. Cement remained the main business of the Company contributing to 50% of the total turnover, although this share was higher, at 54%, in 2007. During the year, the Company established new export markets in the Middle East and Europe and exports grew to 26% of turnover. In spite of the fluctuations in the exchange rate, this level of export sales provided the Company with a substantial hedge against repayment commitments on its US Dollar borrowings.

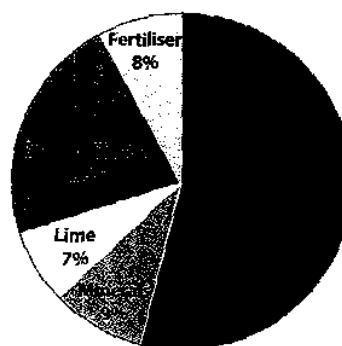
Group Turnover (Ksh Millions)



Divisional Turnover



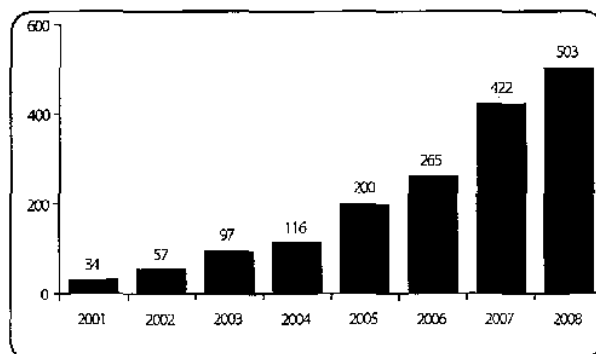
2008 Total Group Turnover Ksh. 4.6 Billion



2007 Total Group Turnover Ksh. 3.9 Billion

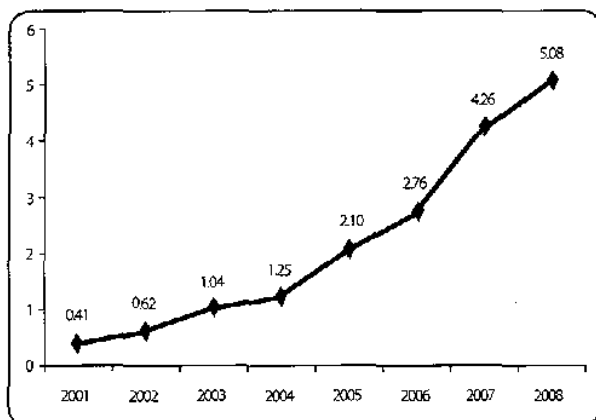
Chairman's Statement (continued)

Net Profit after Tax (Ksh Million)



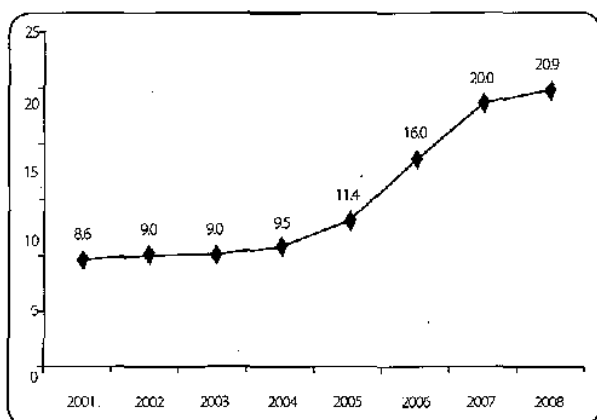
With the growth in turnover, net profit also increased to Ksh 503 million, a 19% increase over the previous year. Earnings per share consequently improved by the same margin, from Ksh 4.26 to Ksh 5.08.

Earnings Per Share (Ksh)

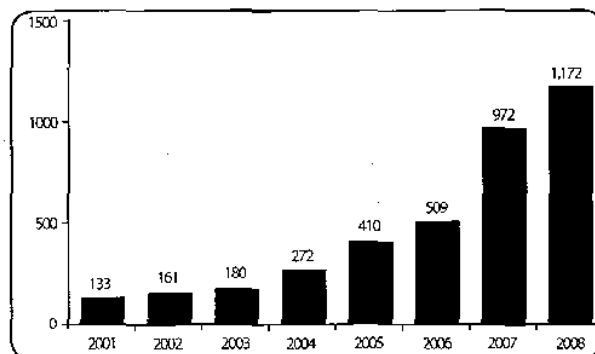


Operating profit margin improved to 21% as a result of cost control measures and operational efficiency improvements in all the plants. One specific example is the reduction in specific power consumption per ton of cement produced, leading to savings of over Ksh 20 million during the year.

Operating Profit Margin (Percentage)

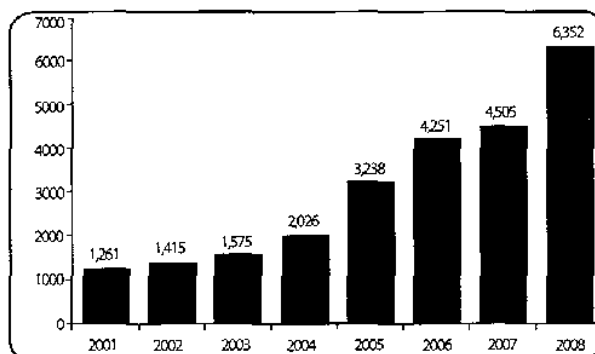


EBITDA (Ksh Millions)



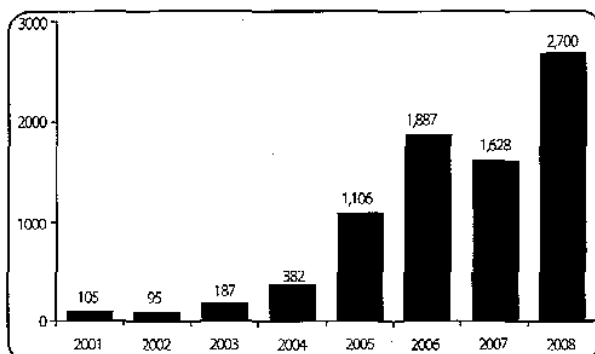
Earnings before interest, tax, depreciation and amortization (EBITDA) grew from Ksh 972 million in 2007 to Ksh 1,172 million in 2008, maintaining a 25% ratio to turnover.

Total Assets (Ksh Millions)



During the year, total assets of the group increased from Ksh. 4.51 billion to Ksh. 6.35 billion as a result of ongoing capital expenditure at the Kaloleni cement plant and the development of a Greenfield cement plant at Tanga, Tanzania. There was also an increase in current assets due to increased trading activity in the year.

Group Net Debt (Ksh Millions)



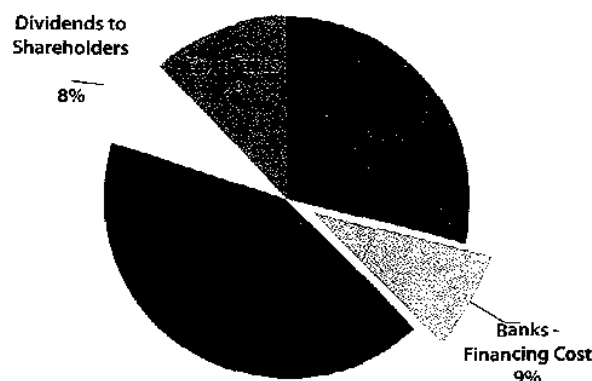
Group borrowings increased from Ksh. 1.63 billion in 2007 to Ksh. 2.7 billion in 2008 on account of ongoing projects in Kenya and Tanzania. Consequently, debt/equity ratio

Chairman's Statement (continued)

stood at 1.27:1 and long term debt to capital employed was at 0.77:1 as at end of 2008. Net worth of the Company improved from Ksh. 1.7 billion in 2007 to Ksh. 2.1 billion in 2008.

Net wealth created in 2008 increased to Ksh. 1.6 billion from Ksh. 1.4 billion in 2007. This is calculated as the difference between turnover and purchase of raw materials and services. 29% (Ksh 468 million) of the value added was distributed amongst the staff, 12% (Ksh 202 million) to the Government in the form of corporation tax, 9% (Ksh 156 million) to the providers of finance, 8% (Ksh 124 million) to shareholders, and the balance 42% (Ksh 690 million) reinvested in the Company. The proportion of reinvestment was higher in 2008 than in previous years when we reinvested about 36%, and paid slightly higher dividend at about 9%. The reason for this is the high equity capital that is needed in order to raise the large project debt for our Tanzania cement project. I am confident that the shareholders appreciate the necessity for this level of reinvestment, in order to earn higher levels of dividends in the years ahead.

Distribution of Wealth Created



Subsidiary Companies

In 2008, we purchased the minority shareholders stake in our Tanzanian subsidiary, **ARM (Tanzania) Limited**, which thus became a 100% owned subsidiary of the Kenyan Company. During 2008, the Company's turnover and profitability increased by 17% over the previous year. As this Company grows with added capacity, and diversified range of products, similar to the range we manufacture in Kenya, this subsidiary will add significantly to the consolidated earnings of the group.

ARMSA (Pty) Limited, our 100% owned subsidiary in South Africa, recorded a lower turnover during 2008 due to disruptions in the supply chain, increase in ocean freight and logistics costs and adverse currency fluctuations.

However, this trend was reversed towards the end of the year, by introducing a wider product range in the market and by reducing manufacturing costs.

Mavuno Fertilizers Limited, a 100% subsidiary, continued to be a dormant Company in 2008 as fertilizer business was still continuing as a division of the Company.

Maweni Limestone Ltd, our 100% owned subsidiary of our Kenya Company, was established in Tanzania for the purpose of setting up a 1.5 million tonne per year cement plant at Tanga. The ground breaking ceremony, held at the site on the 14th October 2008, was presided over by His Excellency President Jakaya Kikwete. The site works commenced soon after, and the Company is expected to commence cement production in 2011. This subsidiary will substantially increase the Company's market presence in East Africa where cement consumption has been growing at about 14% annually. Over the next few years, the growth in the cement business, both in Kenya and Tanzania, will likely double the turnover and the profitability of the group.

At the Annual General Meeting of shareholders held on 9th June 2008, shareholders approved the Special Resolution to separate the Company's divisions into wholly owned subsidiaries, **"ARM Cement Ltd"** for cement, lime and related products, and **"ARM Minerals and Chemicals Ltd"** for minerals, sodium silicate and specialty building products. The reasons for creating the subsidiary structure is to create two strong, and focused Companies which will protect each subsidiary from any volatility in the business of the other. It will also facilitate a clearer understanding of the Group's business, and help unlock and create greater value for existing shareholders. The new structure will also enhance the possibility of attracting new equity investment from strategic investors who have industry specific interests. Regulatory clearances have now been obtained and the implementation of the new structure is targeted for completion during the year.

Environment Management & Quality Systems

The Company's cement and lime plant at Kaloleni is a state of the art plant achieving environmental emissions below 20mg/Nm³. The plant is certified for both ISO 9001:2000 for quality systems and ISO 14001:2004 for environment management systems. The sodium silicate plant is also ISO 9001:2000 certified for quality systems.

The Company continues to conduct regular training programmes for its staff to improve the quality of management systems and achieve international quality benchmarks. We have monitoring systems for responsible use of fuels and raw materials, employee health and safety, emissions monitoring and reporting, as well as a monitoring system for local impact on land and communities.

Chairman's Statement (continued)

The most common approach is the reforestation and regeneration of exploited quarry sites with local flora. In certain sites and in response to local community requests, depleted quarry pits have been converted into water reservoirs.

The Company's policy makes it compulsory to have all necessary mining licenses conform to local legislation, to operate in a way which minimizes environmental impact and disturbance to local communities.

Corporate Social Responsibility

At ARM, Corporate Social Responsibility and sustainable development has risen in prominence. We embedded these into our corporate strategy not only out of sense of responsibility but primarily because of our belief that it benefits both the society in which we operate and all our stakeholders.

In 2008, the Company was awarded the Total Eco Challenge Gold Award, Corporate Category, for environment management, protection and reforestation.

The Company began its environment and tree planting programmes several years ago, assisting rural area communities, women's and youth groups, schools, and institutions. Over the years, the Company has developed tree nurseries around the country, assisted in set up of family woodlots and social forestry, and distributed over a million seedlings.

Although we are proud of our track record, we appreciate that much more needs to be done and significant challenges lie ahead. We feel confident of success because of our strengths and our commitment to this cause.

ARM's CSR objectives are guided by the following:

- Education and training of people as a long term investment.
- Commitment to our staff for fair wages, benefits and involvement in development.
- Communication with our staff on topics such as health, safety, human rights, labour rights, diversity and equal opportunities.
- Community involvement programmes - stakeholders committees - providing solutions to challenges at local level.

Credit Rating

I am pleased to report that Global Credit Rating, South Africa, has re-confirmed its rating of ARM at A1 for Short Term, indicating a high certainty of timely payments, excellent liquidity factors and minor risk factors. The rating of A for Long Term indicates high credit quality, good protection, with small risk factors that are variable due to economic cycles.

	2002	2003	2004	2005	2006	2007	2008
Long Term	A-	A	A	A	A	A	A

Outlook for 2009

The global economic slowdown is expected to reduce the gross domestic product (GDP) growth rates in Kenya and the region. The Company is cautiously optimistic and expects to achieve similar performance in 2009 by focusing on operational efficiencies. The ongoing project to increase cement capacity in Kenya will be completed later this year. The Tanzania cement project is expected to be completed towards the end of 2011.

Dividend

The Board of Directors recommends a dividend payment of Ksh.1.25 per share for the year 2008. Subject to approval by the shareholders, the dividend will be paid in July 2009 to members on the register at the close of business on May 27, 2009. For this purpose, the register of members will remain closed between May 28 and May 29, 2009.

Palle J Rune

Chairman

Report of the Directors

For the Year Ended 31 December 2008

The directors present their report together with the group audited financial statements for the year ended 31st December 2008.

ACTIVITIES

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

CHANGES IN THE YEAR

On 24 January 2008, Athi River Mining Limited acquired all the shares held by the minority shareholders of ARM (Tanzania) Limited making it a wholly owned subsidiary.

Athi River Mining Limited also acquired 100% share holding in a newly registered company, Maweni Limestone Limited. The company is located in Tanga, Tanzania and is yet to start operations.

RESULTS

	2008 Sh'000
Profit before taxation	705,450
Taxation expense	(201,996)
Profit for the year transferred to retained earnings	503,454

DIVIDENDS

The directors propose the payment of a first and final dividend of Sh 1.25 (2007 - Sh 1.25) per share totalling Sh 123,818,750 in respect of the year ended 31 December 2008 (2007 - Sh 123,818,750).

DIRECTORS

The present directors are shown on page 3.

Mr. B Rogers passed away in August 2008.

AUDITORS

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

BY ORDER OF THE BOARD

R. R. Vora

Secretary
Nairobi

31st March 2009

Statement of Directors' Responsibilities

The Kenya 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 group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenya Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 Kenya 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 group and the company and of the operating results of the group. 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 and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

Palle J Rune
Chairman

Pradeep H Paunrana
Managing Director

Date: 31st March 2009

Independent Auditors' Report to the Members of Athi River Mining Limited

Deloitte.

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

Tel: + (254 - 20) 444 1344/05-12
Fax: + (254 - 20) 444 8966
Dropping Zone No. 92
Email: admin@deloitte.co.ke

Report on the Financial Statements

We have audited the accompanying financial statements of Athi River Mining Limited and its subsidiaries, set out on pages 11 to 49 which comprise the consolidated and parent company balance sheets as at 31 December 2008, and the consolidated income statement, consolidated and parent company statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

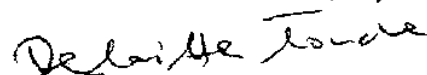
In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company and its subsidiaries as at 31 December 2008 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

Report on Other Legal Requirements

As required by the Kenya Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- ii) the company's balance sheet is in agreement with the books of account.

Certified Public Accountants (Kenya)



Nairobi

31st March 2009

Audit . Tax . Consulting . Financial Advisory.

A member firm of
Deloitte Touche Tohmatsu

Partners: D.M. Ndonye F. Aloo H. Gadhoke* D.C. Hodges* J.M. Kiarie M.M. Kisuu
J. Nyang'aya S.O. Onyango J.W. Wangai * British

Consolidated Income Statement

For the Year Ended 31 December 2008

	Note	2008 Sh'000	2007 Sh'000
TURNOVER		4,619,473	3,881,736
COST OF SALES		(2,944,803)	(2,478,849)
GROSS PROFIT		1,674,670	1,402,887
OTHER OPERATING INCOME		15,672	1,227
DISTRIBUTION COSTS		(268,257)	(242,642)
ADMINISTRATIVE EXPENSES		(454,574)	(396,485)
FINANCE COSTS	4	(262,237)	(171,256)
FINANCE INCOME	5	176	26,909
PROFIT BEFORE TAXATION	6	705,450	620,640
TAXATION CHARGE	8 (a)	(201,996)	(198,981)
PROFIT FOR THE YEAR	9	503,454	421,659
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		503,454	422,339
LOSS ATTRIBUTABLE TO MINORITY INTEREST		-	(680)
PROFIT FOR THE YEAR		503,454	421,659
EARNINGS PER SHARE - Basic and diluted	10 (a)	Sh 5.08	Sh 4.26
DIVIDENDS PER SHARE - Proposed	10 (b)	Sh 1.25	Sh 1.25

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 Sh'000	2007 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	11(a)	4,372,067	3,303,486
Operating lease prepayments	12	33,554	11,661
Intangible assets	13	10,938	6,549
Goodwill	14	50,908	-
		<u>4,467,467</u>	<u>3,321,696</u>
Current assets			
Inventories	16	787,080	557,171
Trade and other receivables	17	951,947	409,576
Employee Share Option Plan	18	83,635	90,825
Due from related parties	26 (b)	16,210	903
Current tax recoverable	8 (c)	-	150
Cash and bank balances		46,139	124,356
		<u>1,885,011</u>	<u>1,182,981</u>
Total assets		<u>6,352,478</u>	<u>4,504,677</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	19	495,275	495,275
Share premium		302,027	302,027
Revaluation surplus		35,323	37,055
Translation reserve		(68,069)	(43,981)
Retained earnings		1,362,975	944,390
		<u>2,127,543</u>	<u>1,734,766</u>
Equity attributable to equity holders of the parent		2,127,543	1,734,766
Minority interest		-	37,218
Total equity		<u>2,127,543</u>	<u>1,771,984</u>
Non current liabilities			
Borrowings	20 (a)	1,638,743 ✓	1,105,340 ✓
Deferred income tax	22	728,534	533,346
Finance leases	23(a)	14,727	27,659
		<u>2,382,004</u>	<u>1,666,345</u>
Current liabilities			
Borrowings	20 (a)	1,031,974 ✓	598,654 ✓
Finance leases	23 (a)	13,775	20,367
Trade and other payables	24	785,742	440,749
Due to related parties	26 (d)	3,164	3,232
Unclaimed dividends		3,549	3,346
Current tax payable	8 (c)	4,727	-
		<u>1,842,931</u>	<u>1,066,348</u>
Total equity and liabilities		<u>6,352,478</u>	<u>4,504,677</u>

The financial statements on pages 11 to 49 were approved by the board of directors on 31 March 2009 and were signed on its behalf by:

Palle J Rune
Chairman

Pradeep H Paurana
Managing Director

Company Statement Of Changes In Equity

For the Year Ended 31 December 2008

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2007	465,000	241,477	38,787	632,721	1,377,985
Issue of shares to ESOP	30,275	60,550	-	-	90,825
Transfer of excess depreciation	-	-	(2,474)	2,474	-
Deferred tax on excess depreciation	-	-	742	(742)	-
Profit for the year	-	-	-	423,487	423,487
Dividend declared - 2006	-	-	-	(93,000)	(93,000)
At 31 December 2007	495,275	302,027	37,055	964,940	1,799,297
At 1 January 2008	495,275	302,027	37,055	964,940	1,799,297
Transfer of excess depreciation	-	-	(2,474)	2,474	-
Deferred tax on excess depreciation	-	-	742	(742)	-
Profit for the year	-	-	-	511,703	511,703
Dividend declared - 2007	-	-	-	(123,819)	(123,819)
At 31 December 2008	495,275	302,027	35,323	1,354,556	2,187,181

The revaluation surplus relates to surpluses arising from the revaluation of property, plant and equipment and is not distributable.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2008

	Note	2008 Sh,000	2007 Sh,000
Operating activities			
Cash generated from operations	25 (a)	597,122	856,390
Interest paid		(262,785)	(171,256)
Interest received		176	299
Corporation tax paid	8 (c)	(1,701)	-
Net cash generated from operating activities		332,812	685,433
Investing activities			
Additions to property, plant and equipment	25 (b)	(1,111,532)	(342,399)
Additions to operating lease prepayments	12	(21,136)	-
Additions to intangible assets	13	(6,771)	(8,459)
Proceeds of disposal of property, plant and equipment		800	-
Net cash used in investing activities		(1,138,639)	(350,858)
Financing activities			
Finance lease payments	23 (c)	(19,044)	(31,440)
Purchase of shares from minority interests	14	(100,152)	-
Borrowings received	25 (c)	1,081,664	-
Repayment of amounts borrowed	25 (c)	(181,700)	(51,918)
Dividends paid	10 (b)	(123,616)	(91,711)
Net cash generated from /(used in) financing activities		657,152	(175,069)
(Decrease)/increase in cash and cash equivalents		(148,675)	159,506
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents 1 January		8,536	(147,163)
Net (decrease) /increase in cash and cash equivalents above		(148,675)	159,506
Exchange rate changes on cash held in foreign currencies		(2,261)	(3,807)
Cash and cash equivalents 31 December	25 (d)	(137,878)	8,536

Notes To The Financial Statements

For the Year Ended 31 December 2008

1 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted, except where disclosed in the notes to the financial statements, remain unchanged from the previous year and are set out below.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(i) Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective in the current period:

- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement, Reclassification of financial assets (effective from 1 November 2008);
- IFRS 7, Financial Instruments: Recognition and Measurement, Consequential disclosures arising from amendments to October 2008 amendments to IAS 39 (effective from 1 November 2008).

Adoption of these interpretations has not led to any changes in the group's accounting policies.

(ii) New and revised standards and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 18, Transfer of assets to Customers (effective for the accounting periods beginning on or after 1 July 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards - Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations - Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23, Borrowing Costs, Comprehensive revision to prohibit immediate expensing and amendments resulting from May 2008 improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to put table instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project. The directors are currently assessing the impact and expected timing of adoption of these amendments on the company's results and financial position.

(iii) Impact of the new and revised standards and interpretations in issue but not yet adopted

The following standards, in particular, will be of considerable relevance to the financial statements of the group and company, when effective:

IFRS 2 (Revised), Share-based Payment: Vesting Conditions and Cancellations

IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations" was issued in January 2008 and will be effective retrospectively for annual periods beginning on or after 1 January 2009. This amendment clarifies that vesting conditions are service conditions and performance conditions only, and as such, any other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact and expected timing of adoption of this amendment on the Group's results and financial position.

IFRS 3 (Revised), Business Combinations

IFRS 3 (Revised) "Business Combinations" was issued in January 2008 and will apply to business combinations occurring on or after 1 April 2010. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that a business acquisition occurs and future reported results. Assets and liabilities arising from business combinations before 1 April 2010 will not be restated and thus there will be no effect on the Group's results or financial position on adoption. However, this standard is likely to have a significant impact on the accounting for business acquisitions post adoption.

IAS 1 (Revised), Presentation of financial statements

IAS 1 (Revised) "Presentation of Financial Statements" was issued in September 2007 and will be effective for annual periods beginning on or after 1 January 2009. The revised standard introduces the concept of a statement of comprehensive income, which enables users of the financial statements to analyse changes in a company's equity resulting from transactions with owners separately from non owner changes. The revised standard provides the option of presenting items of income and expense and components of other comprehensive income either as a single statement of comprehensive income or in two separate statements. The Group does not currently believe the adoption of this revised standard will have a material impact on the consolidated results or financial position of the Group.

IAS 23 (Revised), Borrowing Costs:

IAS 23 (Revised) "Borrowing Costs" was issued in March 2007 and will be effective for annual periods beginning on or after 1 January 2009. It requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of a qualifying asset. The existing option of immediate recognition of those borrowing costs as an expense has been removed. The Group is currently assessing the impact and expected timing of adoption of this standard on the Group's results and financial position.

IAS 27 (Revised), Consolidated and Separate Financial Statements:

An amendment to IAS 27 "Consolidated and Separate Financial Statements" was issued in January 2008 and is effective for annual periods beginning on or after 1 July 2009. The amendment requires that when a transaction occurs with non-controlling interests in Group entities that do not result in a change in control, the difference between the consideration paid or received and the recorded non-controlling interest should be recognised in equity. In cases where control is lost, any retained interest should be remeasured to fair value with the difference between fair value and the previous carrying value being recognised immediately in the income statement. Transactions occurring before 1 April 2010 will not be restated and thus there will be no effect on the Group's results or financial position on adoption. However, the Group has historically entered into transactions that are within the scope of this standard and may do so in the future.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

IAS 32 (Revised), Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation:

"Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation" was issued in February 2008 and is effective for annual periods beginning on or after 1 January 2009. The amendments require entities to classify certain financial instruments as equity if certain specific criteria are met. The Group is currently assessing the impact and expected timing of adoption of this amendment on the Group's results and financial position.

IFRIC 12, Service Concession Arrangements

IFRIC 12 "Service Concession Arrangements" was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2008. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The Group does not currently believe the adoption of these pronouncements will have a material impact on the consolidated results or financial position of the Group.

IFRIC 13, Customer Loyalty Programmes

IFRIC 13 "Customer Loyalty Programmes" was issued in June 2007 and will be effective for annual periods beginning on or after 1 July 2008. The interpretation addresses how companies that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services if and when the customers redeem the credits. It requires that consideration received be allocated between the award credits and the other components of the sale. The Group is currently assessing the impact and expected timing of adoption of this standard on the Group's results and financial position.

IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was issued in July 2007 and is effective for annual periods beginning on or after 1 January 2008. The interpretation provides guidance on determining the amount of any post employment benefit surplus that could be recognised as an asset on the balance sheet, how a minimum funding requirement affects that measurement, and when a minimum funding requirement can create an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS 19. The Group will adopt this interpretation with effect from 1 April 2008 and is currently assessing the impact of adoption of this interpretation on the consolidated results and financial position of the Group.

IFRS 8, Operating segments

IFRS 8, "Operating segments" replaces IAS 14, "Segment reporting". The new standard requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

Impact of other standards and interpretations

The directors anticipate that the adoption of the other standards and interpretations and amendments resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2008, when effective, will have no material impact on the financial statements of the group.

The IASBs annual improvements process deals with non-urgent, minor amendments to standards.

The group's principal accounting policies are set out below:

Basis of preparation

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

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

Basis of consolidation

Subsidiary undertakings, being those companies in which the group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are no longer consolidated when the group loses control. All inter company balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, ARM (Tanzania) Limited, Mavuno Fertilizer Limited, ARMSA (Pty) Limited and Maweni Limestone Limited, all made up to 31 December. Mavuno Fertilizer Limited did not operate in the year. Its intended operations were undertaken by Athi River Mining Limited.

Revenue recognition

Turnover is recognised upon delivery of goods and acceptance by customers and represents sales net of sales returns and Value Added Tax, and after eliminating sales within the group.

Interest income is recognised using the effective interest rate method.

Taxation

The taxation charge represents the sum of the current tax charge and the deferred taxation charge for the year.

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 taxation 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 taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Property, plant and equipment are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are revalued on the basis of open market value by independent valuers.

Increases in the carrying amounts of property, plant and equipment resulting from revaluation are credited to the revaluation surplus.

Basis of valuation:

Freehold land and buildings	-	Open market value
Other assets	-	Depreciated replacement cost

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

Depreciation

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

Freehold land	Nil
Buildings	2.5%
Heavy commercial vehicles and Quarrying equipment	10%
Plant, machinery and equipment	5% to 15%
Motor vehicles	25%
Furniture and fittings	12.5%
Computer hardware	25%

Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus to the revenue reserve.

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, plant and equipment categories once the project is completed and commissioned.

Intangible assets-computer software costs

Costs incurred on computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 4 years.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the group's share of the net assets of the acquired subsidiary as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Investment in subsidiaries

The investments in subsidiaries are stated at their acquisition cost less any accumulated impairment losses in the company's books. These are all eliminated on consolidation.

Inventories

Finished goods inventories are stated at the lower of cost and net realisable value. Cost comprises direct production costs, labour and relevant transport costs. Work in progress comprises raw materials costs, direct labour costs, other direct costs and related production overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Raw materials and other inventories are stated at the lower of purchase cost and net realisable value.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the group as a lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease so as to achieve a constant rate of interest over the remaining balance of the liability.

Rental payments in respect of operating leases are charged to the income statement in the year to which they relate.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

Operating lease prepayments

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

Dividends payable

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 at an Annual General Meeting.

Cash and cash equivalents

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.

Share - based Payment

Equity - settled share-based payments to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date.

No amount is recognised in the income statement as the offer price is fully recoverable from the employees.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Kenya shillings, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated to Kenya shillings using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the groups' currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time 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 the income statement in the period in which they are incurred.

Retirement benefit obligations

The group contributes to the statutory National Social Security Fund in Kenya and Tanzania. The group's obligations under the schemes are determined by local statute and are currently limited to Sh 200 per employee per month in Kenya and 10% of the gross pay of each employee in Tanzania. The group's contributions are charged to the income statement in the year to which they relate. ARMSA does not contribute to any retirement benefits scheme for its employees.

Employee benefits

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.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

Financial instruments

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument.

Financial assets

Financial assets are recognised initially at cost using settlement date accounting. Receivables originated by the group and 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 and losses are recognised in the income statement except for available for sale financial assets where gains and losses are recognised in equity. 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.

Impairment

At each balance sheet date, the group reviews the carrying amounts of its 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 is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Segmental reporting

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the group's revenue that can be allocated to the segment on a reasonable basis. Segment revenue excludes finance income.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis. Segment expenses exclude finance costs and income taxes.

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. Segment assets and segment liabilities exclude income tax assets and income tax liabilities respectively.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one year.

Contingent liabilities

Contingent liabilities arise if there is a possible obligation; or a present obligation that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

1 Accounting policies (continued)

Comparatives

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

2 Critical judgments in applying the entity's accounting policies

In the process of applying the group's accounting policies, management is 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 considered to be 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 only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key areas of judgement and sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property, plant and equipment and intangible assets

The group reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period.

Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated.

Contingent liabilities

As disclosed in note 28 to these financial statements, the group is exposed to various contingent liabilities in the normal course of business.

The directors evaluate the status of these exposures on a regular basis to assess the probability of the group incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

3 Segment reporting

a) Primary segment information - Business segments

Segment result is the net of segment revenue and segment 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).

The group is currently organised into two divisions. These divisions are the basis on which the group reports its primary segment information. The two divisions are:

- Cement and lime.
- Other products.

The table below shows the group's revenue, expenses, segment assets, segment liabilities, capital expenditure and depreciation analysed by primary segments.

	Cement and Lime		Other products		Total	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Sales and other income	2,661,175	2,359,259	1,973,970	1,523,704	4,635,145	3,882,963
Cost of sales and other Expenditure	2,175,274	1,929,258	1,754,421	1,333,065	3,929,695	3,262,323
Profit before taxation	485,901	430,001	219,549	190,639	705,450	620,640
Assets	3,905,329	2,589,801	2,447,149	1,914,876	6,352,478	4,504,677
Liabilities	2,973,661	1,940,016	1,251,274	792,677	4,224,935	2,732,693
Depreciation and Amortisation	122,577	147,250	81,957	63,329	204,534	210,579
Capital expenditure	855,287	55,385	403,498	297,841	1,258,785	353,226

(b) Secondary segment information - Geographical segments

The group is organized on a regional basis into three main geographical segments:

- Kenya
- Tanzania
- South Africa

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

3 Segment reporting

(b) Secondary segment information - Geographical segments (continued)

The analysis below is the summary of the group's results, assets and liabilities by geographical segments:

	Kenya Sh'000	Tanzania Sh'000	South Africa Sh'000	Eliminated on consolidation Sh'000	Total Sh'000
Year ended 31 December 2008					
Revenue					
External	4,226,928	290,810	117,407	-	4,635,145
Inter-segment	-	12,404	68,580	(80,984)	-
Total revenue	4,226,928	303,214	185,987	(80,984)	4,635,145
Result					
Segment result	742,659	1,236	(38,116)	(154)	705,450
Balance sheet					
Segment assets	5,135,046	1,019,344	110,232	87,856	6,352,478
Non operating assets	1,063,146	103,665	12,403	(1,179,214)	-
Total assets	6,198,192	1,123,009	122,635	(1,091,358)	6,352,478
Segment liabilities	3,281,662	203,420	173,547	566,306	4,224,935
Non operating liabilities	729,349	708,008	20,707	(1,458,064)	-
Total liabilities	4,011,011	911,428	194,254	(891,758)	4,224,935
Other information					
Additions to property, plant and equipment	657,278	573,600	-	-	1,230,878
Additions to operating lease prepayment	-	21,136	-	-	21,136
Additions to intangible assets	6,771	-	-	-	6,771
Depreciation of property, plant and equipment	183,104	15,166	3,603	-	201,873
Amortisation of prepaid operating leases	243	36	-	-	279
Amortisation of intangible assets	2,382	-	-	-	2,382
Provision for bad and doubtful debts	10,197	-	586	-	10,783
Off balance sheet items					
Capital expenditure commitments	692,500	-	-	-	692,500
Operating lease commitments	110,890	-	1,423	-	112,313
Contingent liabilities	38,000	-	-	-	38,000
	841,390	-	1,423	-	842,813

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

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3 Segment reporting (continued)

(b) Secondary segment information - Geographical segments (continued)

The analysis below is the summary of the group's results, assets and liabilities by geographical segments:

	Kenya Sh'000	Tanzania Sh'000	South Africa Sh'000	Eliminated on consolidation Sh'000	Total Sh'000
Year ended 31 December 2007					
Revenue					
External	3,610,671	222,308	49,984	-	3,882,963
Inter-segment	-	23,567	237,464	(261,031)	-
Total revenue	3,610,671	245,875	287,448	(261,031)	3,882,963
Result					
Segment result	609,908	2,997	9,213	(1,478)	620,640
Balance sheet					
Segment assets	3,994,997	346,481	165,363	(2,164)	4,504,677
Non operating assets	343,358	25,233	-	(368,591)	-
Total assets	4,338,355	371,714	165,363	(370,755)	4,504,677
Segment liabilities	2,030,650	135,380	180,858	385,805	2,732,693
Non operating liabilities	501,943	60,650	23,246	(585,839)	-
Total liabilities	2,532,593	196,030	204,104	(200,034)	2,732,693
Other information					
Additions to property, plant and equipment	298,301	44,963	1,503	-	344,767
Additions to intangible assets	8,459	-	-	-	8,459
Depreciation of property, plant and equipment	187,812	13,844	4,069	-	205,725
Amortisation of prepaid operating leases	1,910	-	-	-	1,910
Amortisation of intangible assets	67	209	-	-	276
Provision for bad and doubtful debts	11,985	-	-	-	11,985
Off balance sheet items					
Capital expenditure commitments	1,855,391	-	-	-	1,855,391
Operating lease commitments	150,170	-	2,058	-	152,228
Contingent liabilities	23,412	-	-	-	23,412
	2,028,973	-	2,058	-	2,031,031

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

4 Finance costs

Interest payable on:

- Loans	141,903	61,486
- Bank overdrafts	54,316	35,424
- Corporate bond	73,245	68,990
- Finance leases	3,993	5,356

Total borrowing costs

273,457 171,256

Less: Amounts included in the cost of qualifying assets

(119,346) -

Net foreign exchange losses

108,126 -

262,237 171,256

5 Finance income

Net foreign exchange gains

- 26,610

Interest receivable

176 299

176 26,909

6 Profit before taxation

The profit before taxation is arrived at after charging/(crediting):

Depreciation property, plant and equipment	201,873	205,725
Amortisation of operating lease prepayments	279	276
Amortisation of intangible assets	2,382	1,910
Operating lease rentals - property	4,880	4,577
- motor vehicles	39,208	21,516
Directors' emoluments: -Fees	3,439	3,329
-Other emoluments	55,848	53,924
Staff costs (note 6)	412,308	373,332
Auditors' remuneration - company	1,663	1,663
- subsidiaries	1,064	1,070
Gain on disposal of property, plant and equipment	(800)	-

7 Staff costs

Wages and salaries	347,161	368,128
Social security cost (NSSF)	3,383	3,978
Termination benefits	6,497	607
Leave pay	3,672	281
Other staff costs	51,595	338

412,308 373,332

Executive directors' emoluments

55,848 53,924

468,156 427,256

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
8 Taxation				
a) Taxation charge				
Current taxation based on taxable income:	6,584	-	6,405	-
Deferred tax charge (note 22)				
Current year	214,170	198,981	221,556	186,420
Prior year (over)/under provision	(18,758)	-	2,995	-
	195,412	198,981	224,551	186,420
	201,996	198,981	230,956	186,420

b) Reconciliation of taxation to expected taxation based on accounting profit

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Profit before taxation	705,450	620,640	742,659	609,907
Tax calculated at a tax rate of 30%	212,063	186,192	222,798	182,972
Tax effect of:				
- Income not subject to tax	(170)	-	(170)	-
- Expenses not deductible for tax purposes	8,861	12,789	5,333	3,448
Prior year deferred taxation (over)/under provision	(18,758)	-	2,995	-
Taxation charge	201,996	198,981	230,956	186,420
c) Tax recoverable movement				
At 1 January	150	150	150	150
Taxation charge	(6,578)	-	(6,405)	-
Taxation paid	1,701	-	1,701	-
At 31 December	(4,727)	150	(4,554)	150
Analysed as follows:				
Current tax recoverable	-	150	-	150
Current tax payable	(4,727)	-	(4,554)	-
	(4,727)	150	(4,554)	150

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

9 Profit attributable to shareholders

The profit attributable to shareholders dealt with in the company financial statements is Sh 511,703,000 (2007 - Sh 423,487,000).

10 (a) Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the parent company by the number of ordinary shares in issue at the balance sheet date. The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	2008	2007
Profit attributable to ordinary shareholders (Sh'000)	503,454	422,339
Weighted average number of ordinary shares in issue	99,055,000	99,055,000
Basic and diluted earnings per ordinary share (Sh)	5.08	4.26

(b) Dividends per share

The directors propose the payment of a first and final dividend of Sh 1.25 (2007 - Sh 1.25) per share totalling Sh 123,818,750 in respect of the year ended 31 December 2008 (2007 - Sh 123,818,750). This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The dividend is payable subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470 Laws of Kenya.

The movement in the dividend payable account is as follows:

	2008 Sh'000	2007 Sh'000
At 1 January	3,346	2,057
Final dividend declared	123,819	93,000
Dividends paid	(123,616)	(91,711)
At 31 December	3,549	3,346

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

11 (a) Property, plant and equipment-Group

	Freehold land and buildings Sh'000	Buildings on leasehold land 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 2007	89,006	187,975	270,252	3,271,229	62,824	3,881,286
Additions	26,780	-	54	19,250	298,683	344,767
Transfers	-	-	944	8,278	(17,681)	(8,459)
Translation loss	1,439	(1,292)	36,046	(50,121)	(1,767)	(15,695)
At 1 January 2008	117,225	186,683	307,296	3,248,636	342,059	4,201,899
Additions	13,640	-	27,690	43,901	1,145,647	1,230,878
Transfers	-	-	-	269,106	(269,106)	-
Disposals	-	-	-	(3,444)	-	(3,444)
Translation loss	-	731	1,071	14,869	27,753	44,424
At 31 December 2008	130,865	187,414	336,057	3,573,068	1,246,352	5,473,757
Comprising						
At cost	79,932	30,022	318,049	3,443,013	1,246,352	5,117,369
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
	130,865	187,414	336,057	3,573,068	1,246,352	5,473,757
Depreciation						
At 1 January 2007	8,379	41,890	152,250	493,380	-	695,899
Charge for the year	-	4,667	24,924	176,134	-	205,725
Translation loss	-	172	(2,987)	(396)	-	(3,211)
At 1 January 2008	8,379	46,729	174,187	669,118	-	898,413
Charge for the year	-	4,678	22,131	175,064	-	201,873
Eliminated on disposal	-	-	-	(3,444)	-	(3,444)
Translation loss	-	76	320	4,452	-	4,848
At 31 December 2008	8,379	51,483	196,638	845,190	-	1,101,690
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2008	122,486	135,931	139,417	2,727,879	1,246,352	4,372,067
At 31 December 2007	108,846	139,954	133,109	2,579,518	342,059	3,303,486
NET BOOK VALUE - (COST BASIS)						
At 31 December 2008	109,100	97,213	139,417	2,727,879	1,258,591	4,332,200
At 31 December 2007	95,460	98,494	133,109	2,579,518	342,059	3,248,640

The group's land and buildings were last revalued on 1 January 1996. Land and buildings were valued on the basis of open market value by independent valuers, Peter H. Huth.

Freehold land and buildings for the company and all the assets for ARM (Tanzania) Limited with a net book value of Sh 598,021,000 (2007 - Sh 457,452,000) have been charged to secure banking facilities granted to the group as disclosed in note 20.

Included above are assets with a total cost of Sh 166,929,341 (2007 - Sh 100,510,000) which were fully depreciated as at 31 December 2008. The normal depreciation charge would have been Sh 22,808,466 (2007 - Sh 13,829,000).

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

11 (b) Property, plant and equipment - Company

	Freehold land and buildings Sh'000	Buildings on leasehold land 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 2007	90,444	179,458	299,925	3,024,776	21,678	3,616,281
Additions	26,780	-	-	17,100	254,421	298,301
Transfers	-	-	-	9,222	(17,681)	(8,459)
At 1 January 2008	117,224	179,458	299,925	3,051,098	258,418	3,906,123
Additions	13,640	-	18,295	38,213	587,130	657,278
Transfers	-	-	-	269,106	(269,106)	-
Disposals	-	-	-	(3,444)	-	(3,444)
At 31 December 2008	130,864	179,458	318,220	3,354,973	576,442	4,559,957
Comprising						
At cost	79,931	22,066	300,212	3,224,918	576,442	4,203,569
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
	130,864	179,458	318,220	3,354,973	576,442	4,559,957
Depreciation						
At 1 January 2007	8,379	41,549	147,040	447,527	-	644,495
Charge for the year	-	4,486	24,286	159,040	-	187,812
At 1 January 2008	8,379	46,035	171,326	606,567	-	832,307
Charge for the year	-	4,486	21,268	157,350	-	183,104
Eliminated on disposal	-	-	-	(3,444)	-	(3,444)
At 31 December 2008	8,379	50,521	192,594	760,473	-	1,011,967
NET BOOK VALUE (REVALUATION BASIS)						
At 31 December 2008	122,485	128,937	125,626	2,594,500	576,442	3,547,990
At 31 December 2007	108,845	133,423	128,599	2,444,531	258,418	3,073,816
NET BOOK VALUE (COST BASIS)						
At 31 December 2008	102,664	98,295	125,626	2,594,500	576,442	3,497,527
At 31 December 2007	89,024	100,307	128,599	2,444,531	258,418	3,020,879

The company's land and buildings were last revalued on 1 January 1996. Land and buildings were valued on the basis of open market value by independent valuers, Peter H. Huth.

Freehold land and buildings with a net book value of Sh 251,422,000 (2007 - Sh 242,268,000) have been charged to secure banking facilities granted to the company as disclosed in note 20.

Included above are assets with a total cost of Sh 166,929,341 (2007 - Sh 100,510,000) which were fully depreciated as at 31 December 2008. The normal depreciation charge would have been Sh 22,808,466 (2007 - Sh 13,829,000).

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

12 Operating lease prepayments

	Group Sh'000	Company Sh'000
COST		
At 1 January 2007	13,007	2,707
Exchange adjustment	(127)	-
At 1 January 2008	12,880	2,707
Additions	21,136	-
Exchange adjustment	1,050	-
At 31 December 2008	35,066	2,707
AMORTISATION		
At 1 January 2007	880	494
Charge for the year	276	67
Exchange adjustment	63	-
At 1 January 2008	1,219	561
Charge for the year	279	68
Exchange adjustment	14	-
At 31 December 2008	1,512	629
NET BOOK VALUE		
At 31 December 2008	33,554	2,078
At 31 December 2007	11,661	2,146

13 Intangible assets

COST		
At 1 January and at 31 December 2007	8,459	8,459
Additions	6,771	6,771
At 31 December 2008	15,230	15,230
AMORTISATION		
At 1 January 2007	-	-
Charge for the year	1,910	1,910
At 1 January 2008	1,910	1,910
Charge for the year	2,382	2,382
At 31 December 2008	4,292	4,292
NET BOOK VALUE		
At 31 December 2008	10,938	10,938
At 31 December 2007	6,549	6,549

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

14 Goodwill

On 24 January 2008, Athi River Mining Limited acquired all the shares held by the minority shareholders of ARM (Tanzania) Limited making it a wholly owned subsidiary.

	2008 Sh'000	2007 Sh'000
Fair value of net assets at acquisition date	175,684	-
Share of parent - 72%	(126,492)	-
Fair value of minority interest net assets acquired	49,192	-
Total purchase consideration	100,100	-
Goodwill	50,908	-

During the current financial year, the directors assessed the recoverable amount of goodwill and determined that the goodwill was not impaired. The recoverable amount of the cash generating units was assessed by reference to value in use.

15 Investment in subsidiaries

	2008 Sh'000	2007 Sh'000
ARM (Tanzania) Limited	252,317	152,217
ARMSA (Pty) Limited	33,014	33,014
Mavuno Fertilizer Limited	7,259	7,259
Maweni Limestone Limited	52	-
	292,642	192,490
The analysis of the increase in the investment in ARM (Tanzania) Limited is as follows:		
At 1 January	152,217	102,939
Purchase of 28% (2007: 5%) equity from minority	100,100	5,712
Subscriptions for rights issue (pending allotment)	-	43,566
At 31 December	252,317	152,217

The details of the above subsidiary companies are as follows:

<i>Company</i>	<i>Percentage holding</i>	<i>Country of incorporation and domicile</i>	<i>Principal activity</i>
ARM (Tanzania) Limited	100%	Tanzania	Extraction and processing of limestone
ARMSA (Pty) Limited	(2007 - 72%) 100%	South Africa	Manufacture of silicate liquid
Mavuno Fertilizer Limited	100%	Kenya	Not operational
Maweni Limestone Limited	100%	Tanzania	Manufacture of Cement

ARM Zambia Limited and ARM Botswana Limited which are wholly owned subsidiaries, are not yet operational thus are not consolidated.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
16 Inventories				
Raw materials	317,879	207,504	231,936	177,082
Finished goods	72,295	77,590	72,295	77,590
Packaging materials	34,049	23,872	30,340	21,750
Stores, spares and laboratory inventories	343,417	153,715	337,366	147,488
Work in progress	19,440	20,072	682	3,037
Goods in transit	-	74,418	-	-
	<u>787,080</u>	<u>557,171</u>	<u>672,619</u>	<u>426,947</u>
17 Trade and other receivables				
Trade receivables	794,906	322,817	698,671	224,323
Other receivables and prepayments	157,041	86,759	96,995	66,984
	<u>951,947</u>	<u>409,576</u>	<u>795,666</u>	<u>291,307</u>

18 Employee share option plan (ESOP)

The adopted IFRS 2 (on share based payments) for the first time in the year ended 31 December 2007 the effects of which have been reflected in the statement of changes in equity.

As at 31 December 2008, the group had the following share based compensation plan:

The ownership-based compensation scheme is for employees of the group. In accordance with the provisions of the plan, as approved by shareholders at the annual general meeting held on 17 June 2005, employees who are in permanent employment with the group for a minimum period of three years may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of Athi River Mining Limited on exercise. Options may be exercised at any time from the date of vesting to the date of their expiry.

On 30 November 2007, 6,055,000 ordinary shares of Sh 5 each were issued to the ESOP at Sh 15 each (market price at the time of approval by the board and Annual General Meeting in 2005) amounting to Sh 90,825,000. The shares issued to the ESOP carry pari passu rights to dividends and voting rights. Dividend relating to unexercised shares accrues to the ESOP.

None of the shares had been vested as at 31 December 2008 (2007: None)

As at the end of the year there were no share options granted (2007 - Nil)

	2008 Sh'000	2007 Sh'000
Amount due from ESOP		
At 1 January	90,825	-
Shares granted in the year	-	90,825
Repayments	(7,190)	-
	<u>83,635</u>	<u>90,825</u>
At 31 December		

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

19 Share capital

	2008 Sh'000	2007 Sh'000
Authorised: 135,000,000 ordinary Shares of Sh 5 each	675,000	675,000
Issued and fully paid: 99,055,000 fully paid ordinary shares of Sh 5 each	495,275	495,275

20 (a) Borrowings - Group

	2008 Sh'000	2007 Sh'000
Bank loans	1,836,028	775,438
Corporate bond	650,672	812,736
Bank overdrafts	184,017	115,820

	2,670,717	1,703,994
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The borrowings are repayable as follows:

On demand or within one year	1,031,974	598,654
In the second year	605,445	414,373
After 2 years but within 5 years	973,504	584,567
After 5 years	59,794	106,400

	2,670,717	1,703,994
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Less: amount due for settlement within one year	1,031,974	598,654
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Amount due for settlement after one year	1,638,743	1,105,340
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Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

20 (a) Borrowings -Group (Continued)

Analysis of borrowings by currency

	Borrowings in US\$	Kshs equivalent Sh'000	Borrowings in ocal currency Sh'000	Total borrowings Sh'000
2008				
Bank overdrafts	-	-	184,017	184,017
Bank loans	17,205,762	1,346,294	489,734	1,836,028
Corporate bond	-	-	650,672	650,672
At 31 December 2008	17,205,762	1,346,294	1,324,422	2,670,717
2007				
Bank overdrafts	112,797	7,151	108,669	115,820
Bank loans	7,458,425	470,438	305,000	775,438
Corporate bond	-	-	812,736	812,736
At 31 December 2007	7,571,222	477,589	1,226,405	1,703,994

The average interest rates were as follows:

	2008 %	2007 %
Bank overdrafts	12.00	12.00
Bank loans (Sh)	12.00	11.09
Bank loans (US \$)	7.21	9.44
Corporate bond	10.00	10.00

Details of securities

The general short term banking, letters of credit and foreign currency facilities with CFC Stanbic Bank Limited are secured by first ranking debenture over all the company's assets for Sh 225,000,000 and a first legal charge for Sh 225,000,000 over the company's freehold and leasehold properties ranking pari passu to the legal charges of Barclays Bank of Kenya Limited and Bank of Africa Kenya Limited.

The overdraft facility and letters of credit with Bank of Africa Kenya Limited are secured by a pari passu debenture for Sh 120,000,000 over all the assets of the company amounting to Sh 3,547,990,000.

The overdraft and loan facilities with Barclays Bank of Kenya Limited are secured by a legal charge over certain properties for Sh 264,000,000 and a debenture of Sh 264,000,000 over all the assets of the group.

The long term loan of US \$ 1,000,000 is secured by a first ranking legal mortgage on the ARM (Tanzania) Limited assets located on plot No. 1 Industrial Area -Maweni Tanga Municipality and a first ranking floating debenture on the company's assets present and future.

The loan from East African Development Bank is secured by a bank guarantee from Bank of Africa Kenya Limited.

The corporate bond is unsecured and matures in 2010.

At 31 December 2008 the group had outstanding letters of credit amounting to Sh 5,928,811 (2007 - Sh 67,513,000).

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

20 (b) Borrowings - Company

	2008 Sh'000	2007 Sh'000
Bank loans	1,736,384	679,594
Corporate bond	650,672	812,736
Bank overdrafts	184,017	115,820
	<u>2,571,073</u>	<u>1,608,150</u>
The borrowings are repayable as follows:		
On demand or within one year	1,001,314	583,195
In the second year	578,618	389,639
After 2 years and within 5 years	931,347	528,916
After 5 years	59,794	106,400
	<u>2,571,073</u>	<u>1,608,150</u>
Less: amount due for settlement within one year	1,001,314	583,195
Amount due for settlement after one year	<u>1,569,759</u>	<u>1,024,955</u>

Analysis of borrowings by currency

	Borrowings in US\$	Kshs equivalent Sh'000	Borrowings in local currency Sh'000	Total borrowings Sh'000
2008				
Bank loans	16,207,554	1,269,052	467,332	1,736,384
Corporate bond	-	-	650,672	650,672
Bank overdrafts	-	-	184,017	184,017
	<u>16,207,554</u>	<u>1,269,052</u>	<u>1,302,021</u>	<u>2,571,073</u>
At 31 December 2008	16,207,554	1,269,052	1,302,021	2,571,073
2007				
Bank loans	5,908,425	374,594	305,000	679,594
Corporate bond	-	-	812,736	812,736
Bank overdrafts	112,797	7,151	108,669	115,820
	<u>6,021,222</u>	<u>381,745</u>	<u>1,226,405</u>	<u>1,608,150</u>
At 31 December 2007	6,021,222	381,745	1,226,405	1,608,150

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

20 (b) Borrowings -Company (Continued)

The average interest rates were as follows:

	2008 %	2007 %
Bank overdrafts	13.25	13.75
Bank loans (Sh)	12.00	11.09
Bank loans (US\$)	7.21	9.44
Corporate bond	10.00	10.00

Details of securities

The general short term banking, letters of credit and foreign currency facilities with CFC Stanbic Bank Limited are secured by a first ranking debenture over all the company's assets for Sh 225,000,000 and a first legal charge for Sh 225,000,000 over the company's freehold and leasehold properties ranking pari passu to the legal charges of Barclays Bank of Kenya Limited and Bank of Africa Kenya Limited.

The overdraft facility and letters of credit with Bank of Africa Kenya Limited are secured by a pari passu debenture for Sh 120,000,000 over all the assets of the company amounting to Sh 3,547,990,000.

The overdraft and loan facilities with Barclays Bank of Kenya Limited are secured by a legal charge over certain properties of Sh 264,000,000 and a debenture of Sh 264,000,000 over all the assets of the group.

The loan from East African Development Bank is secured by a bank guarantee from Bank of Africa Kenya Limited.

The corporate bond is unsecured and matures in 2010.

At 31 December 2008, the company had outstanding letters of credit amounting to Sh 5,928,811 (2007 - Sh 67,513,000.)

21 Reserves

a. Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment. Where revalued assets are sold, the portion of the properties' revaluation reserve that relates to those assets are effectively realised and transferred directly to retained earnings.

b. Translation reserve

The foreign exchange differences relating to the translation of balances from the functional currencies of the Group's foreign subsidiary into the Kenya Shilling, which is the functional currency of the Group, are brought to account by entries made directly to the foreign currency translation reserve.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

22 Deferred income tax

Deferred income tax is calculated on all temporary differences under the liability method using the currently enacted tax rate of 30% for Kenya and Tanzania and 29% for South Africa.

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
The net deferred taxation liability is attributable to the following items:				
Liabilities:				
Accelerated capital allowances	727,290	787,405	703,068	742,520
Revaluation surplus	15,139	15,881	15,139	15,881
Unrealised exchange gains	3,053	11,868	10,607	8,205
	<u>745,482</u>	<u>815,154</u>	<u>728,814</u>	<u>766,606</u>
Assets:				
Leave pay provision	(2,340)	(1,325)	(2,340)	(1,241)
Tax losses available for future offset	(14,608)	(280,483)	-	(263,442)
	<u>(16,948)</u>	<u>(281,808)</u>	<u>(2,340)</u>	<u>(264,683)</u>
Net deferred taxation liability	<u>728,534</u>	<u>533,346</u>	<u>726,474</u>	<u>501,923</u>
The movement on the deferred taxation account is as follows:				
At 1 January	533,346	336,244	501,923	315,503
Income statement charge (note 8(a))				
- current year	214,170	198,981	221,556	186,420
- prior year	(18,758)	-	2,995	-
Exchange adjustment	(224)	(1,879)	-	-
	<u>728,534</u>	<u>533,346</u>	<u>726,474</u>	<u>501,923</u>
At 31 December	<u>728,534</u>	<u>533,346</u>	<u>726,474</u>	<u>501,923</u>

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

23 (a) Finance leases - Group

	Minimum lease payments		Present value of minimum payments	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Amounts payable under finance leases				
Within one year	14,445	24,067	13,775	20,367
In the second to fifth years inclusive	15,775	30,594	14,727	27,659
	30,220	54,661	28,502	48,026
Less: Future finance charges	(1,464)	(6,635)	-	-
Present value of lease obligations	28,756	48,026	28,502	48,026
Less: Amount due for settlement within 12 months			(13,775)	(20,367)
Amounts due for settlement after 12 months			14,727	27,659

(b) Finance leases - Company

	Minimum lease payments		Present value of minimum payments	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Amounts payable under finance leases				
Within one year	13,879	23,450	13,363	19,750
In the second to fifth years inclusive	14,638	28,994	13,954	26,059
	28,517	52,444	27,317	45,809
Less: Future finance charges	(1,200)	(6,635)	-	-
Present value of lease obligations	27,317	45,809	27,317	45,809
Less: Amount due for settlement within 12 months			(13,363)	(19,750)
Amounts due for settlement after 12 months			13,954	26,059

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

23 Finance leases (Continued)

	GROUP		COMPANY	
	2008 Sh,000	2007 Sh,000	2008 Sh,000	2007 Sh,000
(c) Analysis by cash flows:				
At 1 January	48,026	77,202	45,809	76,212
New financing received	-	2,368	-	-
Repayments	(19,044)	(31,440)	(18,492)	(30,403)
Exchange translation	(226)	(104)	-	-
At 31 December	28,756	48,026	27,317	45,809

It is the group's policy to acquire some of its motor vehicles through finance leases. The average lease term is 4 years. The weighted average rate of interest on the obligation under finance lease agreements as at 31 December 2008 was 7 % (2007: 9%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The carrying value of the company's lease obligations is Sh 47,017,440 (2007 - Sh 54,441,614)

The company's obligations under the finance leases are secured by the lessor's charges over the leased assets.

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
24 Trade and other payables				
Trade payables	680,782	306,831	490,357	243,081
Other payables and accruals	97,160	129,500	179,887	125,783
Leave pay provision	7,800	4,418	7,800	4,139
	785,742	440,749	678,044	373,003

25 Notes to the cash flow statement

(a) Cash generated from operations

	2008 Sh'000	2007 Sh'000
Profit before taxation	705,604	620,640
Adjustments:		
Depreciation	201,873	205,725
Amortisation of operating lease prepayments	279	276
Amortisation of intangible assets	2,382	1,910
Net finance costs recognised in profit	154,111	172,545
Net foreign exchange gains	(23,489)	(22,332)
Gain on disposal of property, plant and equipment	(800)	-
Finance income recognised in profit	176	-
Profit before working capital changes	1,039,784	978,764
Increase in inventories	(229,909)	(247,564)
(Increase)/decrease/ in trade and other receivables	(542,371)	225,201
Movement in related party balances	(15,375)	(3,220)
Increase/(decrease) in trade and other payables	344,993	(96,791)
Cash generated from operations	597,122	856,390

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

25 Notes to the cash flow statement (Continued)

	2008 Sh'000	2007 Sh'000
(b) Analysis of additions to property, plant and equipment		
Additions in the year (note 11(a))	1,230,878	344,767
Less:		
Acquisitions through finance leases (note 23(c))	-	(2,368)
Interest capitalised (note 4)	(119,346)	-
Acquisition by cash	<u>1,111,532</u>	<u>342,399</u>
 (c) Analysis of cash flow by loans and corporate bond (note 20(a))		
At 1 January	1,588,174	1,661,801
Repayment	(181,700)	(51,918)
Received	1,081,664	-
Accrued interest on corporate bond	10,672	12,736
Exchange adjustment	(12,110)	(34,445)
	<u>2,486,700</u>	<u>1,588,174</u>
 (d) Analysis of cash and cash equivalents		
Cash and bank balances	46,139	124,356
Bank overdrafts (note 20(a))	(184,017)	(115,820)
	<u>(137,878)</u>	<u>8,536</u>

26 Related party transactions and balances

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.

There company transacts with its subsidiaries. Related parties also include the management personnel, their associates and close family members.

	2008 Sh'000	2007 Sh'000
(a) Transactions		
Sales:		
ARM (Tanzania) Limited	12,404	42,377
ARMSA (Pty) Limited	68,580	235,987
Rhino Special Products Limited	75,621	-
	<u>156,605</u>	<u>278,364</u>

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

26 Related party transactions and balances (Continued)

The outstanding balances arising from sale and purchase of goods and services are as follows:

	2008 Sh'000	2007 Sh'000
(b) Due from related parties - group		
Rhino Special Products Limited	15,537	-
Cement Distributors Limited	673	903
	<u>16,210</u>	<u>903</u>
(c) Due from related parties - company		
Maweni Limestone Limited	386,593	-
ARM (Tanzania) Limited	196,627	-
ARMSA (Pty) Limited	168,659	150,773
Rhino Special Products Limited	15,537	-
Mavuno Fertilizer Limited	-	95
Due from a director	232	-
	<u>767,648</u>	<u>150,868</u>
(d) Due to related parties - group		
Due to directors	<u>3,164</u>	<u>3,232</u>
(e) Due to related parties - company		
Due to directors	<u>-</u>	<u>342</u>
(f) Key management compensation		

The remuneration of directors and other members of key management during the year were as follows:

	2008 Sh'000	2007 Sh'000
Salaries and other benefits	<u>110,706</u>	<u>99,232</u>
(g) Directors' remuneration		
Fees for services as directors	3,439	3,329
Other emoluments (included in key management compensation above)	55,848	53,924
	<u>59,287</u>	<u>57,253</u>

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

**27 Operating lease commitments****The company as a lessee:**

Rental payments during the year was Sh 44,088,000 (2007 - Sh 26,093,000). At the balance sheet date, the company had contracted for the following future lease payables:

	2008 Sh'000	2007 Sh'000
Within one year	44,660	39,916
In the second to fifth year inclusive	62,821	104,957
After five years	4,832	7,355
	112,313	152,228

Leases are negotiated for an average term of five years and rentals are reviewed as per the provisions of the lease agreements. The leases are not cancellable unless one is in breach of the conditions provided in the lease agreements.

28 Capital commitments - group and company

	2008 Sh'000	2007 Sh'000
Authorised and contracted for	223,767	177,400
Authorised but not contracted for	468,733	1,677,991

29 Contingent liabilities- group and company

	2008 Sh'000	2007 Sh'000
Guarantees	38,000	23,412

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

30 Financial risk management objectives

The group's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates risk. The group's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance identifies, evaluates and hedges 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 and investing excess liquidity.

The group has policies in place to ensure that sales are made to customers with an appropriate credit history. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

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. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Monetary assets and liabilities held in foreign currencies are closely monitored to ensure that they are not materially affected by adverse foreign currency fluctuations.

The company hedges its foreign exchange risk on foreign currency denominated sales with foreign currency borrowings.

At 31 December 2008, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the impact on pre tax profit for the year would have been Sh 5,314,000 (2007: Sh 1,330,000) higher/lower, mainly as a result of US dollar payables and bank balances.

(ii) Interest rate risk

The group is exposed to interest rate risk as it borrows funds both at fixed and floating interest rates. The risk is managed by the group by a close management monitoring control. As at 31 December 2008, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pretax profit of Sh 13,673,000 (2007 - Sh 9,638,000).

(iii) Price risk

The group does not hold investments that would be subject to price risk; hence this risk is not relevant

Credit risk

Credit risk refers to the risk that counter party will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The group's exposure and the credit rating of its counter parties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

30 Financial risk management objectives (Continued)

Credit risk (Continued)

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

The carrying amount of financial assets recorded in the financial statements represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained is as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
At 31 December 2008				
Trade and other receivables	774,981	176,966	24,750	976,697
Provision for impairment	-	-	(24,750)	(24,750)
	<u>774,981</u>	<u>176,966</u>	<u>-</u>	<u>951,947</u>
Due from related parties	5,004	11,206	-	16,210
Employee Share Option Plan	-	83,635	-	83,635
Cash and bank balances	<u>46,139</u>	<u>-</u>	<u>-</u>	<u>46,139</u>
	<u>826,124</u>	<u>271,807</u>	<u>-</u>	<u>1,097,931</u>

The amount that best represents the group's maximum exposure to credit risk as at 31 December 2007 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
At 31 December 2007				
Trade and other receivables	212,391	197,185	21,364	430,940
Provision for impairment	-	-	(21,364)	(21,364)
	<u>212,391</u>	<u>197,185</u>	<u>-</u>	<u>409,576</u>
Employee Share Option Plan	90,825	-	-	90,825
Due from related parties	903	-	-	903
Cash and bank balances	<u>124,356</u>	<u>-</u>	<u>-</u>	<u>124,356</u>
	<u>428,475</u>	<u>197,185</u>	<u>-</u>	<u>625,660</u>

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The finance department is actively following this debt.

The debt that is impaired has been fully provided for. However, the finance department are following up on the impaired debt.

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

30 Financial risk management objectives (Continued)

Liquidity risk

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

The table below analyses the group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh'000	Between 1 - 3 months Sh'000	Over 3 months Sh'000	Over 12 months Sh'000	Total Sh'000
At 31 December 2008					
Borrowings	-	498,826	602,132	1,569,759	2,670,717
Finance leases	1,699	3,398	15,292	8,118	28,502
Trade and other payables	-	670,276	24,846	92,620	785,742
Due to related parties	-	3,164	-	-	3,164
Unclaimed dividends	-	203	-	3,346	3,549
	<u>1,699</u>	<u>1,175,867</u>	<u>642,270</u>	<u>1,673,843</u>	<u>3,491,674</u>
At 31 December 2007					
Borrowings	-	32,548	257,648	1,413,798	1,703,994
Finance leases	1,629	4,887	13,851	27,659	48,026
Trade and other payables	-	440,749	-	-	440,749
Due to related parties	-	3,232	-	-	3,232
Unclaimed dividends	-	3,346	-	-	3,346
	<u>1,629</u>	<u>484,762</u>	<u>271,499</u>	<u>1,441,457</u>	<u>2,199,347</u>

Notes To The Financial Statements (continued)

For the Year Ended 31 December 2008

31 Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Consistent with others in the industry, the group monitors capital on the basis of 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.

	GROUP		COMPANY	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Share capital	495,275	495,275	495,275	495,275
Share premium	302,027	302,027	302,027	302,027
Revaluation surplus	35,323	37,055	35,323	37,055
Retained earnings	1,362,975	944,390	1,354,556	964,940
Translation reserve	(68,057)	(43,981)	-	-
Minority interest	-	37,218	-	-
Equity	2,127,543	1,771,984	2,187,181	1,799,297
Total borrowings and finance leases	2,699,473	1,752,020	2,598,390	1,653,959
Less: cash and bank balances	(46,139)	(124,356)	(24,974)	(96,772)
Net debt	2,653,334	1,627,664	2,573,416	1,557,187
Total capital	4,780,877	3,399,648	4,760,597	3,356,484
Gearing	55%	48%	54%	46%

32 Events after the balance sheet date

The board of directors approved the financial statements on 31 March 2009 and authorised that the financial statements be issued. On this date, the directors were not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the group and results of its operation as laid out in these financial statements.

33 Incorporation

The company is domiciled and incorporated in Kenya under the Companies Act.

34 Currency

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

Shareholders' Information

ARM Top Ten Shareholders

The ten largest shareholdings in the company and the respective numbers of shares held at 31 December 2008 are as follows:

Name of Shareholder	Number of Shares held	% Shareholding
1. Amanat Investments Ltd	45,013,249	45.44
2. Bamburi Cement Ltd	13,968,300	14.10
3. Athi River Mining Employee Share Ownership Plan	6,055,000	6.11
4. Orthodox Archbishopric of Kenya & Irinoupolis	1,852,200	1.87
5. Wilfred Murungi	1,166,862	1.18
6. Barclays (K) Nominees Ltd A/C 9230	1,165,577	1.18
7. National Social Security Fund	870,000	0.88
8. Insurance Company of East Africa	809,780	0.82
9. Alan Pickering	800,000	0.81
10. Anjana Pradeep Paurana	756,049	0.76
11. Others	26,597,983	26.85
Total	99,055,000	100.00

Distribution of shareholders as at 31 December 2008

Number of Shares	Number of Shareholders	Number of Shares	% Shareholding
Less than 500	2856	561,773	0.57
501 - 5000	3302	5,158,295	5.20
5001 - 10,000	234	1,755,795	1.78
10,001 - 100,000	248	7,205,989	7.26
100,001 - 1,000,000	49	15,151,960	15.30
Over 1,000,000	6	69,221,188	69.89
Total	6695	99,055,000	100.00



ATHI RIVER MINING LIMITED

PROXY FORM

I/We _____

of _____

being a member(s) of Athi River Mining Limited, hereby appoint:

of _____

of failing him / her _____

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 11th June 2009 and at any adjournment thereof.

Number of shares held _____

Account number of member _____

As witness my / our hand this _____ day of _____ 2009

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 authorized 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.

FOLD

The Secretary
Athi River Mining Limited,
P.O. Box 41908 - 00100 Nairobi, Kenya

FOLD

