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*21/2/04 NLSO*

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1. East African Portland Cement Company -- Periodicals  
2. Portland Cement Industry -- Kenya -- Periodicals.

# OUR VISION, OUR MISSION

## Vision

To be the leading provider of cement and cement products  
in the eastern Africa region

## Mission

To cost effectively manufacture and market quality  
cement and cement products to the satisfaction of our  
customers and employees while enhancing corporate  
value for our shareholders and fulfilling our social  
responsibilities

2007/0891



## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the 72nd Annual General Meeting of The East African Portland Cement Company Limited will be held at the factory, Athi River, on Thursday, 16 December 2004 at 12.00 noon for the following purposes:-

### ORDINARY BUSINESS

1. To confirm the minutes of the 71st Annual General Meeting held on 9 December 2003.
2. To receive the Chairman's Report.
3. To receive and consider the Financial Statements for the year ended 30 June 2004 together with the reports of the Directors and Auditors thereon.
4. To declare a dividend of Kshs. 1.75 per share in respect of the financial year ended 30 June 2004 as recommended by the Directors.
5. To elect Directors:-
  - (i) In accordance with Article 83 of the Company's Articles of Association, the following Directors retire at this meeting and, being eligible, offer themselves for re-election.
    - Mr J K Kinyua
    - Dr N K Ng'eno
  - (ii) In accordance with Article 99 of the Company's Articles of Association, the following Director retires by rotation at this meeting and, being eligible, offers himself for re-election.
    - Mr N O Mogere
- \*6. Messrs Deloitte & Touche have expressed their willingness to continue in office as auditors for the year 2004/2005. Subject to approval by the Controller and Auditor-General, to appoint Deloitte & Touche as auditors and to authorise the Directors to fix the auditors remuneration.
7. To transact any other business of the Company of which due notice has been received in accordance with the Company's Articles of Association.

### BY ORDER OF THE BOARD

J L G MAONGA  
SECRETARY

Date: 4 November, 2004

- Note:
1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. (SEE ENCLOSED FORM).
  2. Any Corporation which is a member may in terms of Article 77 of the Company's Articles of Association, appoint a representative to attend and generally exercise the power of such a power.

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## FIVE-YEAR FINANCIAL REVIEW

	2000 sh '000	2001 sh '000	2002 sh '000	2003 sh '000	2004 sh '000
Turnover	2,918,148	3,169,645	3,207,060	3,842,138	4,166,289
Operating profit	554,453	335,889	436,544	170,543	441,076
Foreign currency exchange (Loss)/Gain	(1,000,216)	736,108	(145,492)	298,522	(637,632)
(Loss)/Profit before Tax	(538,860)	974,384	212,934	382,164	(391,594)
Taxation Credit/(Charge)	119,392	(237,899)	(89,755)	(156,021)	122,417
(Loss)/Profit Attributable to Shareholders	(419,468)	736,489	123,179	226,143	(269,177)
Cement sales volume (MT)	409,473	414,842	425,875	499,378	528,948
Dividends	-	(90,000)	(135,000)	(157,500)	(157,500)
<b>Capital Employed</b>					
<b>Assets</b>					
Non current	6,532,623	5,717,866	5,494,899	5,201,517	5,050,681
Current	1,550,805	1,787,159	1,919,754	2,266,420	2,419,616
<b>Total assets</b>	<b>8,083,428</b>	<b>7,505,025</b>	<b>7,414,653</b>	<b>7,467,937</b>	<b>7,470,297</b>
<b>Equity &amp; Liabilities</b>					
Capital and reserves	1,625,576	1,934,552	1,897,111	2,151,656	1,802,463
Non current liabilities	5,655,380	4,758,686	4,730,968	4,378,135	4,589,480
Current liabilities	802,472	811,787	786,574	938,146	1,078,354
<b>Total Equity &amp; Liabilities</b>	<b>8,083,428</b>	<b>7,505,025</b>	<b>7,414,653</b>	<b>7,467,937</b>	<b>7,470,297</b>
(Loss)/Earnings per Share (Kshs)	(4.66)	8.18	1.37	2.51	(2.99)
Dividends per Share (Kshs)	-	1.00	1.50	1.75	1.75

## COMPANY INFORMATION

### BOARD OF DIRECTORS

Directors Name	Nationality	Occupation and particulars of other directorships	Age	Date of Appointment	Position
Mr. Benson Sande Ndeti	Kenyan ✓	Architect <b>Other Directorships</b> • In-house Architects Weiss Systems	32	18/06/03	Chairman
Mr. Ole Mapelu Zakayo	Kenyan ✓	Managing Director - EAPCC	45	18/5/04	Managing Director
Mr. R. Anthony Hadley	British ✓	Company Executive Regional President Africa Lafarge, Cement Division <b>Other Directorships</b> Bamburi Cement Ltd	45	21/7/99	Director
Mr. Hamish Keith (Alternate to Mr R A Hadley)	Kenyan ✗	Advocate <b>Other Directorships</b>  • AON Minet Insurance Brokers Limited • Bora Services Limited • De La Rue Currency & Security Print Limited • Kenya Titanium Minerals (Epz) Limited • Kole Kole Limited • Kwazi Limited • Longonot Farm Limited • Mukanya Ranch Limited • Segera Ranch Limited • Madeteni Limited • Ngalawa Limited • Halasa Limited • Rumada Limited • Pelele Limited • Shazia Limited • Mliwa Limited • Sagai Limited • Shalaka Limited • Shwari Limited • Deraya Limited  <b>Company Secretary</b> • The Jubilee Insurance Company of Kenya Limited • De La Rue Currency and Security Print Limited • AIG Global Investment Company Limited	56	16/12/02	Alternate Director
Dr. Nehemiah K Ng'eno (PSMinistry of Trade and Industry)	Kenyan ✓	Civil Servant		05/08/04	Director

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## COMPANY INFORMATION

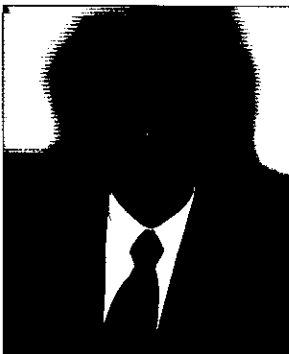
### BOARD OF DIRECTORS

Directors Name	Nationality	Occupation and particulars of other directorships	Age	Date of Appointment	Position
Mrs. Margaret Chepwogen Rotich (Alt to PS Trade and Industry)	Kenyan X	Civil Servant Other Directorships Alt Director – ICDC Life Ministry (Kenya) Radiation Direction Board	48	24/09/04	Alternate Director
Mr. Joseph K. Kinyua (PS Treasury)	Kenyan ✓	Civil Servant		5/08/04	Director
Mr. Naftali O. Mogere (Managing Trustee – NSSF)	Kenyan ✓	Managing Trustee, National Social Security Fund  <b>Other Directorships</b> National Bank of Kenya Ltd AFC Bamburi Cement Co. Ltd	48	9/08/02	Director
Mr. Geoffrey Christopher David Groom	British ✓	Company Executive <b>Other Directorships</b> Kenya Flourspar Co Ltd Ndoto Holdings Ltd Hot Pepper Holdings Ltd	58	1/7/97	Director
Mr. Sankale ole Kantai	Kenyan ✓	Advocate	43	15/07/03	Director
Mr. Jackson Kinyanjui (Alternate to PS Treasury)	Kenyan X	Civil Servant	49	14/01/04	Alternate Director
Mrs. Mary Wairimu Ndirangu (Alternate to the Managing Trustee – NSSF)	Kenyan X	Alternate to Managing Trustee, NSSF	49	08/01/04	Alternate Director
<b>Secretary</b> Mr. John Lucks Gwaro Maonga	Kenyan	Company Secretary	44	18/10/02	Company Secretary

## BOARD OF DIRECTORS



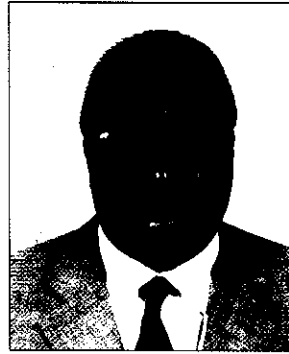
Mr. Benson Sande Ndeta,  
*Chairman*



Mr. Ole Mapelu Zakayo,  
*Managing Director*



Mr. Joseph K. Kinyua,  
*Director*



Dr. Nehemiah K. Ng'eno,  
*Director*



Mr. R. Anthony Hadley,  
*Director*



Mr. Naftali O. Mogere,  
*Director*



Mr. Geoffrey C. D. Groom,  
*Director*



Mr. Sankale ole Kantai,  
*Director*



Mr. John L. G. Maonga,  
*Company Secretary*

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## COMPANY INFORMATION

### SHAREHOLDING STRUCTURE

SHAREHOLDER	% HOLDING	NO. OF SHARES HELD
NSSF	27%	24,300,000
GOK	25%	22,500,000
CEMENTIA (LAFARGE)	14.6%	13,140,000
BCI	14.6%	13,140,000
BAMBURI (nominees)	12.5%	11,250,000
OTHERS	6.3%	5,670,000
<b>Total</b>	<b>100%</b>	<b>90,000,000</b>

There has not been any movement in the shareholding during the year

### SHARE DISTRIBUTION SCHEDULE

Category	No. of Shareholders	Shares Held	Percentage
1-1,000	364	180,366	0.20
1,001-5,000	208	510,641	0.57
5,001-10,000	55	401,062	0.45
10,001-50,000	43	891,324	0.99
50,001-100,000	7	443,103	0.49
Over 100,000	15	87,573,504	97.30
	<b>692</b>	<b>90,000,000</b>	<b>100.00</b>

#### SECRETARY

J L G Maonga  
Livingstone Associates  
P O Box 30029, 00100  
Nairobi

#### AUDITORS

Deloitte & Touche  
"Kirung'ii", Ring Road Westlands  
P O Box 40092, 00100  
Nairobi

#### REGISTERED OFFICE

L R 337/113/1  
Namanga Road, off Mombasa Road  
P O Box 40101, 00100 Nairobi or P O Box 20 Athi River

#### INSURANCE BROKERS

Alexander Forbes InsuranceBrokers Kenya Limited  
Chester House, Koinange Street  
P O Box 30076, 00100, Nairobi GPO

#### REGISTRARS

Haki Registrars  
P O Box 40868, 00100 Nairobi

AON Minet Insurance Brokers Kenya Limited  
AON Minet House, off Nyerere Road  
P O Box 55289, 00100, Nairobi GPO

#### BANKERS

Kenya Commercial Bank Limited  
Standard Chartered Bank Kenya Limited  
Standard Chartered Bank Uganda Limited  
The Co-operative Bank of Kenya Limited

Boma Insurance Brokers  
Town House, Kaunda Street  
P O Box 43945, 00100, Nairobi GPO



## BOARD COMMITTEES

The board committees as at the date of this report comprise:

Executive Committee	Tender & Procurement Committee	Human Resources & Remuneration Committee	Technical Committee	Audit Committee
<b>C o m p o s i t i o n</b>				
Seven non - executive and one Executive director	Four non-executive directors, Managing Director, General Manager Works, Finance Manager, Purchasing Manager and Production Manager	Four non-executive directors and Managing Director	Four non-executive directors and Managing Director	Four non-executive directors
<b>F r e q u e n c y   o f   m e e t i n g s   p e r   a n n u m</b>				
Four and when necessary	As and when necessary	As and when necessary	As and when necessary	Four and when necessary
<b>C h a i r m a n</b>				
Benson S. Ndeta	Hamish Keith	N. Mogere	Benson S. Ndeta	Sankale ole Kantai
<b>M e m b e r s</b>				
J. K. Kinyua Dr. N. K. Ng'eno S ole Kantai G.C.D. Groom R. A. Hadley N. Mogere Ole Mapelu Zakayo	J. K. Kinyua Benson S. Ndeta N. Mogere Ole Mapelu Zakayo	Benson S. Ndeta Dr. N. K. Ng'eno G.C.D. Groom Ole Mapelu Zakayo	J. K. Kinyua G.C.D. Groom N. Mogere Ole Mapelu Zakayo	J. K. Kinyua G.C.D. Groom N. Mogere

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# CORPORATE GOVERNANCE REPORT

Corporate governance is the process by which companies are directed and controlled with the objective of increasing shareholders' value and satisfying shareholders. This is achieved by establishing a system that clearly defines authority and responsibility resulting in a system of internal controls that is regularly tested to ensure effectiveness. The company confirms its commitment to the principle of openness, integrity and accountability as advocated by the principles of corporate governance. Through this process, the shareholders and other stakeholders derive assurance that the company is ethically managed according to prudently determined risk parameters in compliance with the law and generally accepted corporate practices. At EAPCC, the board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre for Corporate Governance as its benchmark in developing EAPCC's Corporate Governance Principles.

Key aspects of our approach to corporate governance are outlined below:

## RESPECTIVE RESPONSIBILITIES

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the board accountable and responsible for efficient and effective governance. The board of directors is responsible for the governance of the company and to conduct the business and operations of the company with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

## BOARD OF DIRECTORS

The composition of the board is set out on pages 5 to 7. In line with international best practice, the board is chaired by a non-executive chairman and includes a managing director and six other non-executive directors. All non-executive directors are independent of management. Directors are required to disclose all areas of conflict of interest to the board and are excluded from voting on such areas. The directors bring a wealth of experience and knowledge to the board's deliberations, which are enhanced by the provision of relevant information on the company's performance. The board provides overall strategic direction, reviews performance, takes material policy decisions, ensures that the company meets its responsibilities to its shareholders and ensures that adequate controls exist to protect the company's assets against major risks. The Board has delegated the authority for implementing company policy, business strategy and day to day management to the Managing Director. The board however retains overall responsibility for financial and operating decisions in addition to monitoring the performance of senior management against the budget.

The board meets on a regular basis and has a formal schedule of matters reserved to it. It also has access to the head of

internal audit, the company secretary and legal counsel. The board has appointed a number of committees to which it has delegated certain responsibilities, with the chairpersons of the committees reporting to the board. The composition of the committees is set out on page 9.

All new directors undergo a formal induction process to ensure that they are fully acquainted with the company's business, its policies and organisation structure.

The directors believe the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the company's accounts. A statement of directors' responsibilities in relation to the accounts appears on page 25. The company has also fully adopted International Financial Reporting Standards (IFRS) in line with the requirements of the Institute of Certified Public Accountants of Kenya. This is aimed at enhancing the understanding of published accounts by shareholders and other stakeholders.

## EXECUTIVE COMMITTEE

The committee is chaired by Mr. Benson S. Ndeta (chairman of the Board and non-executive director) and whose other members are the Managing Director and six non-executive directors. The Committee meets more often when issues necessitating a meeting arise, but at any rate not less than four times a year.

Responsible for:-

- Establishing and maintaining a system of internal controls. This includes developing written policies and procedures to ensure that business is conducted within a developed control framework.
- Developing a framework for assessing the company's risks including; operational, financial, going concern risks and management of assets and liabilities to ensure that adequate resources are available to meet anticipated stakeholders needs.

## COMMITTEES OF THE BOARD

The board has appointed four committees which meet regularly under the terms of reference set by the Board. The composition of the committees is set out on page 9.

### Audit Committee

The Audit Committee comprises of four non-executive directors. Its meetings are regularly attended by the Finance Manager, Internal Audit Manager and representatives of the External Auditors of the Company. It meets at least once every quarter and also before every Board meeting. The functions of the committee include:-

- The evaluation and improvement of management information and internal control systems.

## CORPORATE GOVERNANCE REPORT

- The review of financial statements of the Company, focusing particularly on accounting policies and practices, adjustments arising from and compliance with International Financial Reporting Standards (IFRS) and other legal requirements.
- Meetings with external auditors before the annual audit to review the nature and scope of audit.
- The review of major findings of internal and external audit reports and management's response.
- Discussion of problems and reservations arising from internal and external audits and any other matters the external auditors may wish to discuss.

The committee also reviews bi-annually the authority, resources and scope of Internal Audit with a view to strengthening the effectiveness of internal and external audits.

### Human Resources and Remuneration Committee

The committee meets as and when necessary. The committee is responsible for monitoring and appraising the performance of senior management including the Managing Director, review of all human resources policies, determining the remuneration of senior management and making recommendations to the Board on the remuneration of non-executive directors.

### Technical Committee

The committee meets as and when necessary and is chaired by the Board Chairman, Mr. Benson S. Ndeta. Among its responsibilities is to consider and recommend the Company's capital expenditure plans. It also reviews proposals for capital developments.

The committee also appraises capital budgets for all hardware and software purchases for recommendation to the Board and ensures that the company's IT strategy is in line with the Company's overall business objectives.

### Tender and Procurement Committee

The committee meets as and when necessary and its composition and responsibilities are as per the Company's procurement policies and the Exchequer and Audit (Public Procurement) regulations, 2001 and Amendment regulations, 2002, legal notices 51 and 161 respectively.

### Communication with Shareholders

The Board and Management attach a high level of importance to the communication of relevant information to the company's shareholders. Shareholders have access to information on the company upon request in between general meetings.

The company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually carried out



*A shareholder contributing during the Annual General Meeting of December 2003.*

through the distribution of the company's Annual Report, the release of notices in the press of EAPCC's half-yearly and annual results and monthly disclosures of operating statistics to the Nairobi Stock Exchange and Capital Markets Authority. In this regard, the company complies with its obligations as contained in the Nairobi Stock Exchange's Listing Rules and the applicable Capital Markets Authority Act and Regulations.

### Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2004 are disclosed in notes 2 and 30 to the financial statements. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party, whereby directors might acquire benefits by means of the acquisition of the company's shares.

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## CHAIRMAN'S STATEMENT

It is my great pleasure to welcome you to the 72nd Annual General Meeting of The East African Portland Cement Company Ltd.

### Business Environment

The economic environment and general business conditions during the year under review remained difficult contrary to expectations.

Despite an average GDP growth rate of 3.6% registered in sub-Saharan Africa, Kenya only managed to register a growth rate of 1.8% in the year ended December 2003. The delayed bilateral and multilateral donor funding, adverse weather conditions and political uncertainty brought about by the stalled constitutional reforms process and perceived instability in the NARC coalition government all contributed to the low economic performance.

Overall the 1.8% economic growth rate can be largely attributed to the agricultural and service sectors. On a sector by sector basis, agriculture, manufacturing, trade and tourism, financial services and transport and communication sectors grew by 1.5%, 1.4%, 1.4%, 3.0% and 1.5% respectively, while the building and construction sector grew by 2.2%. Coffee, horticulture and sisal production recorded strong growths in output of 6.7%, 10.1% and 13.2% respectively, while tea recorded modest growth of 2.3%. While outputs increased, the depressed market prices for most agricultural commodities continued to impact on earnings. Horticulture provided the silver lining with increased demands following the expansion into non-traditional markets of the Middle East, United States of America and Australia.

Interest rates declined markedly due to the restructuring of domestic debt by Treasury with the benchmark 91 day treasury bill rate declining from 2.998% in June 2003 to stand at 2.015% by June 2004. The shilling depreciated against the US Dollar from an average rate of Kshs79.6 in June 2004 compared to Kshs74.4 in June 2003. It also depreciated against the Sterling Pound, Japanese Yen and Euro by 17.0%, 18.2% and 13.2% respectively. This depreciation was mainly as a result of the weakening of the US Dollar against these currencies in the International Currency Markets. From a regional perspective, the Kenya Shilling depreciated by 16.7% to the Uganda Shilling, but remained stable against the Tanzania Shilling.

Although the economic performance for the period under review did not meet expectations, the government seems to be laying a firm foundation for sustained future economic growth. The enactment of the Public Officers and Ethics Act and Economic Crimes and Prevention of Corruption Act will no doubt go a long way in reducing corruption in the Civil Service and in allaying investors fears. On the social front, the provision of free primary education, though posing a big financial burden to the Treasury initially, will go a long way in building up the human resource capacity in the country and improving the social well being of many Kenyans.

### Review of cement production and use

The company is optimistic about profits in the coming year, as it is likely to benefit from the expansion of the building and construction sector which is expected to pick up substantially following renewed donor support to Kenya particularly for the rehabilitation and reconstruction of infrastructure.

The major projects planned for the year and beyond include reconstruction and improvement of major sections of the Northern corridor for which donors have pledged Shs 22 billion (\$ 275 million). This is in addition to the ongoing European Union financed improvement of the same road. The Government intends to "concession the corridor on a build, operate and transfer basis".

Road repair and construction is likely to benefit from additional resources that are expected from the Swedish International Development Agency and the African Development Agency. These commitments will be complemented by Ksh 400 million raised through taxation.

The Government will also build road bypasses and new houses in Nairobi, including the slum upgrading project.

Recently whilst on an official visit to Japan, H.E. President Mwai Kibaki received assurances that the Japanese Government will provide the remainder of the funds required to complete the Sondu Miriu Hydro Power Project which had stalled. The completion of this hydro power project should lead to a decrease in the cost of power in the country which will be beneficial to our business and to the rest of the manufacturing industry.

Under the aegis of the East African Cement Producers Association (EACPA), we continue to work with various government organs in East Africa to develop standards for use of cement in road construction. We believe that the initiative could significantly improve the quality and cost of the region's road network. We are also pursuing development of low cost housing options as a viable solution to the enormous informal settlements in our towns and cities.

On regional competition, we are still sensitising the government on the need to create a level playing field. The integration of Kenya, Uganda and Tanzania into the East African Community as well as integration into the wider COMESA trading bloc, is expected to increase access to regional markets for local products leading to increased investment in the three economies.

Our key concerns continue to be the high cost of power and its uninterrupted supply, high taxation on fuel and the poor state of roads and railways. For EAPCC and Kenyan manufacturers to be competitive, these issues must continue to be addressed.

In Kenya, aggregate cement volumes on a June – June basis increased by below the forecast of 35.2% due to the absence of public sector infrastructure spending as a result of the current



poor relations between the Kenyan Government and the donor community, which in turn has delayed donor funding.

### FUTURE OUTLOOK

As the Government moves towards fulfilling its 2002 elections pledges before the next general election and due to the time lag between disbursements of funds and actual public sector infrastructure spending, a 20% increase in cement demand is envisaged.

Cement production is an energy intensive process with fuel and electricity costs accounting for almost 40% of production costs. The energy costs are expected to reduce in the next year as a consortium of large-scale electricity consumers renegotiates tariff agreements with KPLC.

The company continues to implement strategic measures in its operations in order to reduce operating costs and improve profit margins. We believe that the overall improvement to date is a reflection of the underlying strengths and resilience in our re-defined strategic plan and an effective focus on cost containment. To this end the Board, Management and Government have entered into Performance Contracts against which results are appraised. The company's vision and mission have also been re-aligned so as to support the achievement of

better results. The company has also embarked on implementing the ISO 9000-2000 standard and the target is to become accredited by the end of fiscal year 2005.

### Corporate Governance

We remain committed to the concepts of good corporate governance, sound business ethics and corporate social responsibility. To this end we continue to monitor and improve the quality of reporting and management of our affairs and implement appropriate Capital Markets Authority's recommendations on improving corporate governance.

During the year, the company participated in the Financial Reporting for Excellence Award organised by the Institute of Certified Public Accountants of Kenya, Nairobi Stock Exchange and Capital Markets Authority.

### Social Responsibility and staff welfare

At EAPCC, we believe in contributing to society at large and improving our staff welfare. A staff training and development policy is in progress which is to be approved by the Board. This policy will ensure that staff training needs are identified and addressed.

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## CHAIRMAN'S STATEMENT

**H**IV/AIDS was declared a national disaster in 1999 and the current government has placed strong emphasis on prevention of the spread of the virus. Due to the heavy toll the HIV/AIDS pandemic has caused to our economy, the company is in the process of initiating an awareness campaign among its staff and their immediate families. The campaign will embody the policy that specifically prohibits any form of discrimination against any employee on the basis of their known or assumed HIV status, encourage voluntary counselling and testing the results of which are confidential and can only be revealed by the employees at their own volition.

The cardinal provision of the policy is that it provides medical assistance to infected staff and their immediate families.

### Our Commitment

The EAPCC strategic orientation recognises that continuous success can only be assured through sustained commitment to its customers, employees, community and shareholders.

For customers, the commitment is to provide value for money and high standards of service whilst ensuring technological leadership through excellence in research and development in addressing customers' and other stake-holders' needs. In short, we strive to provide a service that not only meets customers' needs but also exceeds their expectations.

For employees, the commitment is to encourage ingenuity, teamwork and productivity through competent management and appropriate reward.

For community, the Company plays a constructive role in the local community where it operates, not least by safeguarding and enhancing the quality of the environment and eventually the quality of life of the communities surrounding the factory.

For shareholders, the commitment is to maximise the value of their investment by consistently increasing earnings and share value by encouraging growth through prudent and strategic management, partnerships, best practice, benchmarking and technical collaboration with the best in the industry, both locally and globally.

Above all, the Company believes in its products and is dedicated to sustaining its leadership through effective cost management using efficient supply chain management techniques.

### Appreciation

The success of the Company would not have been possible without the continued support of our customers. On behalf of the Board, I take this opportunity to once again extend my gratitude to them and all our other stakeholders for their valuable support and confidence in our Company.

I would like to thank the Managing Director and all the staff for their unstinting hard work, dedication and commitment that

have ensured that the Company maintains a strategic position in Kenya's cement industry.

As I conclude, I welcome to the Board of East African Portland Cement Company Limited the new Board members, namely: J. K. Kinyua, Dr. N. K. Ng'eno and Ole Mapelu Zakayo.

The Board is recommending for approval by the shareholders a first and final dividend of KShs1.75 per share payable to the shareholders of the Company on the register of shareholders as at Thursday, December 16 2004 and will be paid commencing Monday, January 10 2005.

Finally, I would like to thank my fellow Board members for their vision and the support they have accorded to me and the Company since my appointment to the Board on June 18, 2003. As we explore new horizons and embrace new opportunities, the stability and continuity of our management team and the Board of Directors continue to be an important asset of our Company.

Benson Sande Ndeta  
CHAIRMAN

September 24, 2004

## MANAGEMENT EXECUTIVE TEAM



From left first row, **Charles Kaloki**, Information Technology Manager; **Salim Dagar**, Chief Mechanical Engineer; **Caleb K. Kapten**, General Manager Commercial; **Jane Musangi Mutua**, Human Resources Manager; **Ole Mapelu Zakayo**, Managing Director; **Rosemary Kinanu Gituma**, Acting Finance Manager; **Kagio K. Ndegwa**, General Manager Works.

From Left 2nd Row, **Robert Saidimu**, Purchasing Manager; **Kananga M'Nchebere**, Chief Electrical Engineer; **Ali Haji**, Legal Officer; **Alex Mutisya**, Deputy General Manager Works; **Charles Obock**, Production Manager; **Harris Njuguna**, Human Resources Planning and Development Manager; **Peter K. Korir**, Corporate Planning and Performance Manager

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# MANAGEMENT REPORT

## REVIEW OF PERFORMANCE

### Sales and Results

Despite intense competition during the first half of the year, turnover grew by 8.4% over the prior period. Sales volumes increased by 6%. This growth was as a result of better price realisation arising from stable market conditions as well as growth in cement demand locally, boosted by a 14.4% growth in the Uganda market.

Gross profits improved by 28.7% compared to 3.69% during prior year ended 30 June 2003. Operating margins in the second half of the year performed better than the first half at 15.1% from 5.4%. The improvement was due to aggressive pricing and rationalised discounting policies initiated by the newly appointed management team, unlike substantial erosion of margins and market share as at June 2003 and in prior years. At the operating level, margins improved considerably to 10.6% from 4.4% in the previous year. Thus the company's internal growth in terms of volumes and market share of 37% was achieved on a profitable basis.

The company managed to contain its selling and distribution costs, but administrative expenditure rose by just under 4%.

Despite the general business uncertainties that prevailed during the year the Company recorded a commendable 159% increase in its operating profits from Kshs 171m as at 30th June 2003 to Kshs 441m as at 30th June 2004.

The after tax profits were significantly reduced as a result of:-

- An exceptional item of Kshs 111m which arose due to the deficit from an actuarial valuation carried out on the Retirement Benefits Scheme. The deficit was recognised in the year ended 30th June 2004 in order to comply with International Financial Reporting Standards.
- An unrealised exchange loss of Kshs 638m due to the 18% depreciation of the Kenya Shilling against the Japanese Yen. This is an adverse movement compared to the unrealised gain of Kshs 299m during the prior year ended 30th June 2003. The company has an outstanding loan denominated in Japanese Yen whilst most of the company's income is in Kenya Shillings.

### Financial Position

In a very volatile environment and inspite of lower interest rates, the company chose to maintain a prudent financial strategy. As a result of this approach, the financial position continued to improve in 30 June 2004. The EAPCC's Balance Sheet shows that the Company had cash and cash equivalents of Kshs 1.55 billion as compared to Kshs 1.03 billion in 30 June 2003, an improvement in the cash position by Kshs 550m. The Company is proposing to pay a dividend of Kshs 157.5m, similar to that paid in 2003 showing that the board was emboldened by the Kshs 441m operating profit realised for the period under review.

### Executive Management Committee

The Managing Director chairs the Executive Management Committee, which comprises of senior managers. The committee meets weekly or as required and its purpose is to deal with company operations and is charged with the achievement of annual revenue and costs targets. The committee ensures that standards of good corporate governance are maintained throughout the company.

### Risk Management and Internal Controls

The board recognises that managing risks to ensure the optimal mix between risk and return is an integral part of achieving corporate goals. A risk management programme is in place to assist the board in understanding business risk issues and key performance indicators affecting the ability of the company to achieve its objectives.

The board is satisfied that the risk management programme is adequate to effectively mitigate to an acceptable level, the significant risks faced by the company.



*Our highly skilled manpower using the state of the art technology*

The directors have also defined procedures and financial controls to ensure that the company's system of internal controls provides reasonable assurance that the company's assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are either prevented or detected within a reasonable period of time.

The internal audit department performs various activities that result in an evaluation of the risk management, control and governance process. Significant business risks and weaknesses in the systems of operating and financial controls are highlighted and brought to the attention of the Audit Committee, senior management and the external auditors. Areas accorded high-risk profiles are given urgent attention by management.



Weekly senior management meetings are also held by the executive management to monitor performance and to agree on measures for improvement.

### Safety, Health and Environmental Practices

Protection of staff, colleagues, stakeholders and the environment is paramount in all our activities. The company is committed to being a leader in occupational safety, health and environmental protection and quality standards, requiring that every operation complies with the rules, regulations and procedures established as best operating practice of the Company.

### Employment Equity

The company is committed to the creation of an organisation that supports the equality of all employees and elimination of any form of discrimination in the workplace.

### Corporate Social Responsibility

EAPCC strives to be a trusted corporate citizen and, as an integral part of society, to fulfil our responsibilities to the societies and communities in which we operate.

In particular, the company has an employee-oriented community support programme in which employees give their time and other resources on a voluntary basis to visit and support disadvantaged children from orphanages and child-care organisations. The philosophy of this initiative is to work with, rather than for, the communities we support, and is intended to confer in the long run, self-sufficiency to these orphanages and child-care organisations. In addition the company contributed towards other projects including donations to slums, churches, schools and famine relief.



*Tree planting by members of staff*

### The EAPCC Code of Business Principles

The EAPCC is committed to the highest standards of integrity, behaviour and ethics in dealing with all stakeholders. All directors and employees of the company subscribe to a corporate culture that requires them to maintain the highest personal and ethical standards and to act in good faith and in the interest of the company. It is our passionate belief that only by acting with integrity can we earn the trust of our customers, shareholders, colleagues, suppliers and the communities among whom we live and work.

Consistent with this belief, EAPCC intends to introduce a code of conduct for all its directors and staff so as to enhance and clarify their understanding of the applicable basic rules and their personal responsibility in securing at all times, the organisation's ethical and legal commitment to integrity and responsible practice. Our first priority is to be a successful business but we also care about our customers, employees, shareholders, business partners and the world in which we live.

To succeed in this quest, requires the highest standards of behaviour and the EAPCC code of business principles will set out those standards. Our employees are expected to follow these principles in spirit as well as to the letter.

More specifically the code will require us to:

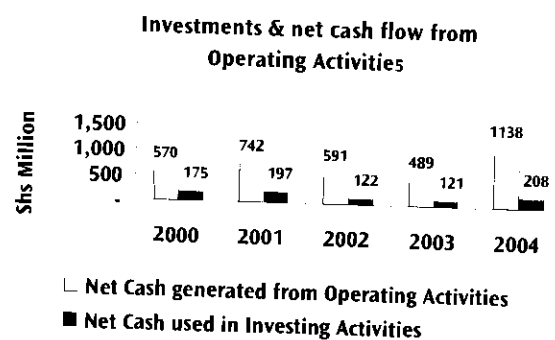
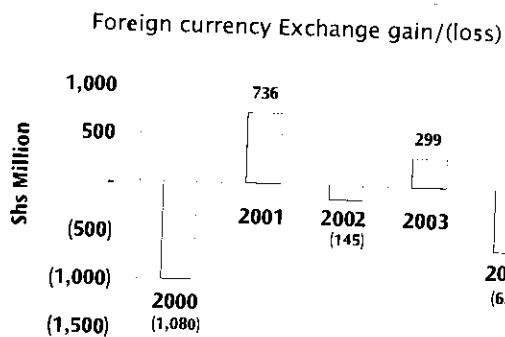
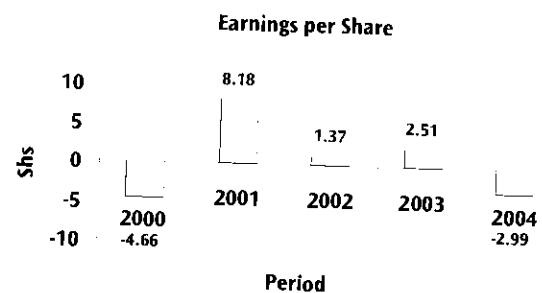
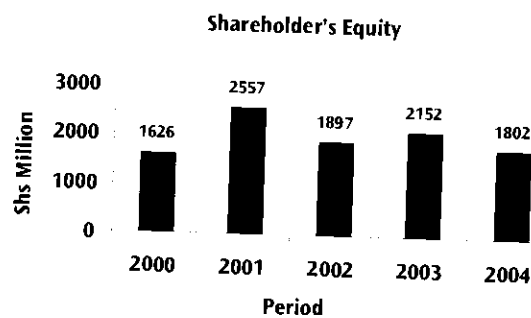
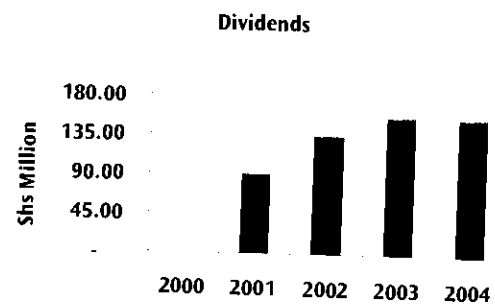
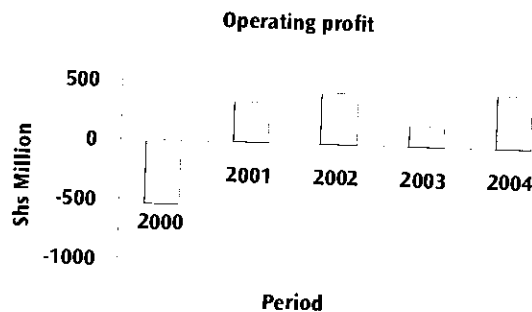
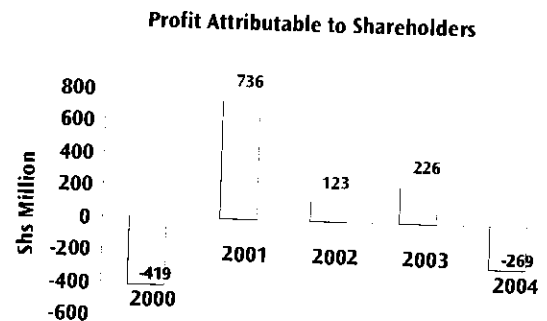
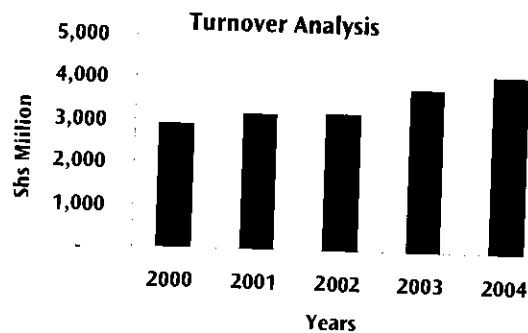
- conduct our operations with honesty, integrity and openness.
- comply with the laws and regulations of Kenya.
- respect diversity and equal opportunity in the workplace whilst providing a safe and healthy work environment for our employees.
- establish mutually beneficial relations with suppliers and customers who adhere to business principles consistent with our own.
- be a trusted corporate citizen, fulfilling our responsibilities to the communities in which we operate.
- co-operate with government and other organisations, both directly and through industry associations.
- make continuous improvements in the management of our environmental impact.
- support vigorous but fair competition.
- maintain zero tolerance to corruption or other improper advantages for business or financial gain.

The Board confirms that the above standards and principles will have to be applied in the course of business in the coming year. To confirm compliance with the code, an Independent Audit – "Ethical Profiling" will be carried out, the results of which will be used to improve performance in all areas of relationships with our stakeholders.

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*Holding Life Together*

## GRAPHICAL HIGHLIGHTS



## GRAPHICAL HIGHLIGHTS

### DISTRIBUTION OF ASSETS

2003

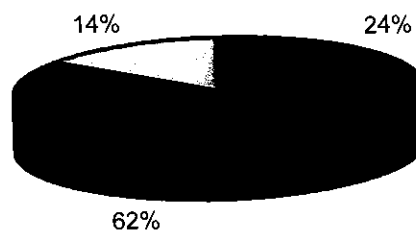
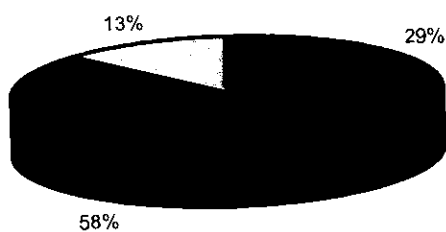
2004



	2003	2004
	Shs 'Million	Shs 'Million
■ Non current Assets	5,202	5,051
Current Assets	2,266	2,419
	<u>7,468</u>	<u>7,470</u>

### DISTRIBUTION OF EQUITY AND LIABILITIES

2003



	2003	2004
	Shs 'Million	Shs 'Million
■ Equity	2,152	1,803
■ Non current liabilities	4,378	4,589
Current liabilities	938	1,078
	<u>7,468</u>	<u>7,470</u>

*Holding Life Together*

## FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 30 JUNE 2004

Results	2004 Sh'000	2003 Sh'000
Revenue	4,166,289	3,842,138
(Loss)/Profit before tax	(391,594)	382,164
(Loss)/Profit attributable to the shareholders of The East African Portland Cement Company Limited	(269,177)	226,143
Dividends	157,500	157,500
Share Capital and Shareholders' funds		
Ordinary Share Capital	450,000	450,000
Shareholders' fund	1,194,963	1,544,156
(Loss)/Earnings and Dividends per share	Shs	Shs
Earnings per share	(2.99)	2.51
Dividends per share	1.75	1.75

# Meeting our challenges



## MEETING OUR CHALLENGES

### THE CHALLENGE

*The Company's bottom line was adversely impacted by the greater than 18% depreciation of the Kenya Shillings against the Japanese Yen giving rise to the unrealised exchange loss of Kshs 638m on the loan that EAPCC obtained from the Overseas Economic Co-operation Fund of Japan (OECF) in 1990.*

*Given the exchange rate exposure and the relatively high interest rate of 2.5% p.a., the OECF Japanese Yen loan is proving to be quite challenging to the Company. This is because the Japanese Yen will likely continue to strengthen against the US Dollar given the large US budget deficit and high oil prices. The implication is that the Company may continue to carry an unrealised loss position on its balance sheets arising*

*out of the revaluation of the outstanding Japanese loan. The foreign exchange adjustments have caused wild swings in after tax profits and company reserves could be depleted over time.*

### OUR RESPONSE

The Company is considering paying off part of the principal and negotiating for a waiver of the interest given the good cashflow position enjoyed by the company at the present time. Options are also being explored such as cross-currency swap to mitigate the asset/liability mismatch, hedging, converting the loan into Kenya Shillings or renegotiating with lenders so as to truncate the loan into a shorter repayment period.



Nairobi Stock Exchange, Trading Floor

## MEETING OUR CHALLENGES

### THE CHALLENGE

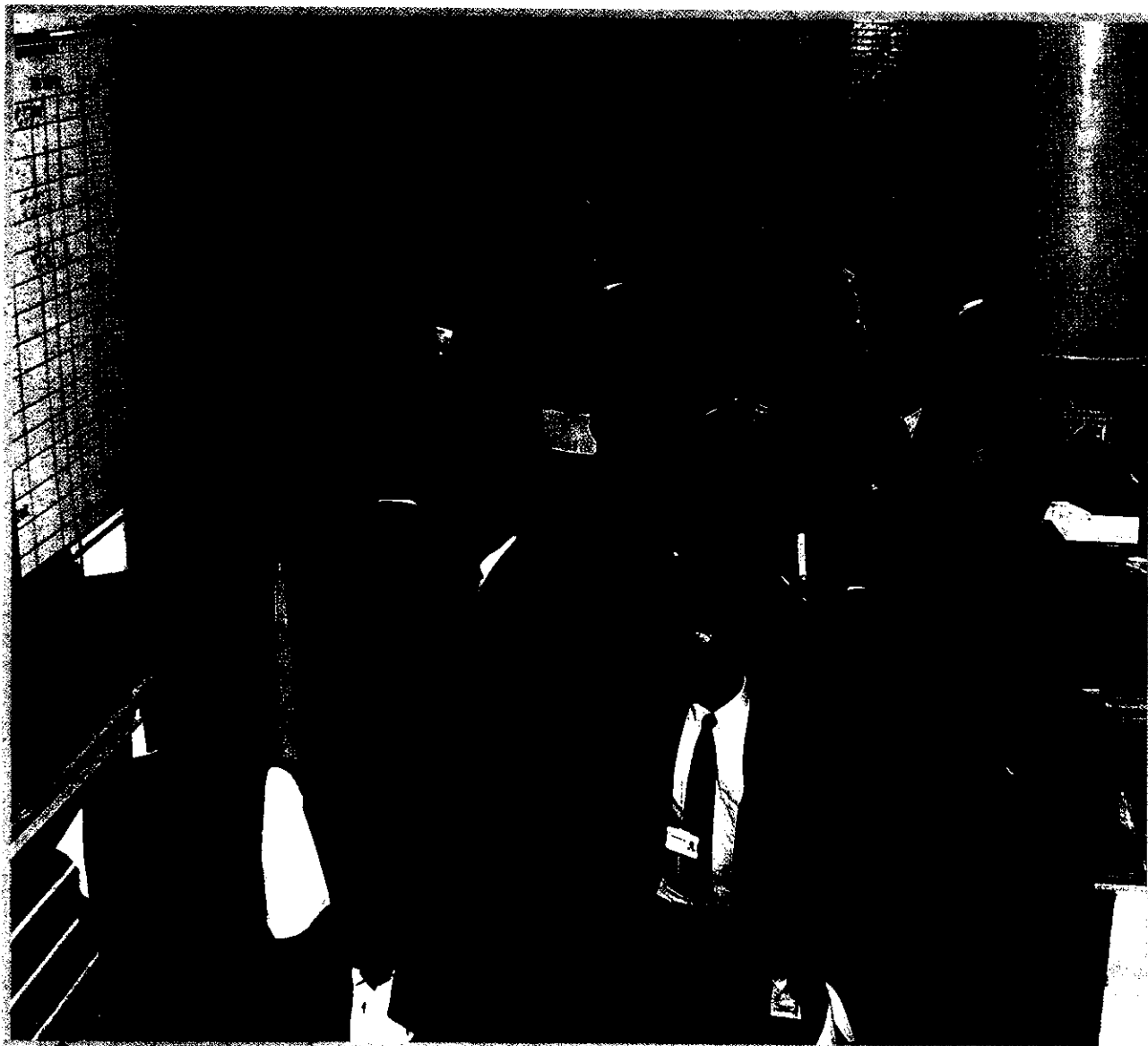
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Nairobi Stock Exchange, Trading Floor

## A high-contrast, black and white photograph of a large, curved, ribbed structure, possibly a tunnel or a large pipe, with people standing in front of it. The text "Meeting our challenges" is overlaid in a large, white, sans-serif font. The image has a grainy, high-contrast aesthetic, with the structure's ribs creating a strong sense of depth and scale. In the foreground, three people are standing near a sign that partially reads "ND", "STAFF", and "CLINIC". To the right, a group of people is visible, some holding a banner. The overall composition suggests a focus on infrastructure, community, and overcoming challenges.



### THE CHALLENGE

*Cement production is an energy intensive process with fuel and electricity accounting for almost 40% of production costs. Electricity costs have been pressured by the global prices of oil. The Company uses furnace oil to run its Kiln.*

### OUR RESPONSE

The Company puts forward Technical strategies that are intended to lower costs of production as follows:

- Electricity costs are expected to reduce as a consortium of large scale electricity consumers renegotiates tariffs agreements with KPLC.
- Focusing on a coal firing project so as to use coal as an alternative source of energy instead of furnace oil.
- To focus on cost reduction projects through re-defined five year strategic plan.



*The Kiln*

### THE CHALLENGE

*The Company has an annual production capacity of 600,000 tons. There is an anticipated cement industry growth from Public Sector projects.*

### OUR RESPONSE

The Company will focus on a mill conversion project to enhance capacity



*Our high quality product, Blue Triangle cement, The Ultimate Symbol of Strength*

### THE CHALLENGE

*With the increased rise of HIV/AIDS in the country, the Company has not been spared. The disease is thus highly likely to affect our workers and their families. The pandemic will also have a negative impact on productivity and increase costs within the business.*

### OUR RESPONSE

Prevention of the disease is one of our objectives and HIV/AIDS education will be a mandatory component of all training programmes for our employees. Voluntary Counselling and Testing (VCT) is encouraged and will be actively promoted.

We are looking at the possibility of providing Anti-Retroviral Therapy (ART) as soon as an appropriate infrastructure is in place to deliver this on a sustainable basis.



*Holding Life Together*

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2004.

### PRINCIPAL ACTIVITIES

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

RESULTS	Sh'000
Loss before taxation	(391,594)
Taxation credit	122,417
Net loss for the year	(269,177)

### DIVIDEND

The directors propose the payment of a first and final dividend of Sh 1.75 per share, totalling Sh 157,500,000 in respect of the year ended 30 June 2004.

### FINANCIAL RISK MANAGEMENT, OBJECTIVES, STRATEGIES AND POLICIES

The company's activities exposes it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse on its financial performance.

Financial risk management is carried out by the treasury team of the company, which identifies, evaluates and helps reduce financial risks. The treasury management policies provide principles for overall risk management, as well policies covering specific risk areas such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investment of excess liquidity.

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

### DIRECTORS

The current board of directors is shown on pages 5 to 7. The following changes took place during the year:

With effect from 24 November 2003, Ms M W Ngari was appointed Ag. Managing Director in place of Mr. E. C. Biryia. Subsequently, she was replaced on 18 May 2004 by the current Managing Director Mr Ole Mapelu Zakayo.

With effect from 8 January 2004, Mrs M W Ndirangu was appointed alternate director to Mr N Mogere in place of Mrs R K Lumbasyo.

With effect from 14 January 2004, Mr J Kinyanjui was appointed alternate director to the PS, Treasury, Mr J Magari in place of Mr S Ngaine.

With effect from 5 August 2004, Mr J K Kinyua, PS Treasury, was appointed a director in place of Mr J Magari and Dr N K Ng'eno, PS Trade and Industry, was appointed a director in place of Mr A K Ketter.

With effect from 24 September 2004, Mrs M C Rotich was appointed alternate director to PS Trade and Industry, Dr N K Ng'eno in place of Mr O Makuu.

In accordance with Article 99 of the Articles of Association, Mr N O Mogere retires and, being eligible, offers himself for re-election.

In accordance with Article 83 of the Articles of Association, Mr J K Kinyua and Dr. N K Ng'eno retire and, being eligible, offer themselves for re-election.

### AUDITORS

The auditors, Deloitte & Touche, having expressed their willingness, will continue in office in accordance with section 159 (2) of the Companies Act (CAP 486).

### BY ORDER OF THE BOARD

J. L. G. Maonga  
Secretary

Nairobi

24 September, 2004

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

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

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

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

**Benson Sande Ndeta**  
Chairman

**Ole Mapelu Zakayo**  
Managing Director

24 September, 2004

*Holding Life Together*

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

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Facsimile: + (254-20) 444 8966 Dropping Zone No. 92  
E-mail: admin@deloitte.co.ke

**Deloitte  
& Touche**

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED

**W**e have audited the financial statements on pages 27 to 45 for the year ended 30 June 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### Respective responsibilities of directors and auditors

As described on page 25, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

### Basis of opinion

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

### Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 30 June 2004 and of its loss and cashflows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

*Deloitte & Touche*

9 November, 2004

*Deloitte & Touche*

## INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 Sh'000	2003 Sh'000
SALES		4,166,289	3,842,138
COST OF SALES		(2,864,653)	(2,831,337)
GROSS PROFIT		1,301,636	1,010,801
OTHER OPERATING INCOME		45,960	24,181
SELLING EXPENSES	4	(429,628)	(427,689)
ADMINISTRATIVE EXPENSES	5	(420,050)	(405,001)
OTHER OPERATING EXPENSES		(56,842)	(31,749)
OPERATING PROFIT	2	441,076	170,543
NET INTEREST COSTS	6(a)	(83,648)	(86,901)
FOREIGN CURRENCY EXCHANGE (LOSS) / GAIN	6(b)	(637,632)	298,522
(LOSS) / PROFIT BEFORE EXCEPTIONAL ITEM		(280,204)	382,164
EXCEPTIONAL ITEM	7	(111,390)	-
(LOSS) / PROFIT BEFORE TAXATION		(391,594)	382,164
TAXATION CREDIT / (CHARGE)	8	122,417	(156,021)
NET (LOSS) / PROFIT FOR THE YEAR		(269,177)	226,143
(LOSS) / EARNINGS PER SHARE	9	Sh (2.99)	Sh 2.51

**CMA-LIBRARY**

The accounting policies on pages 31 to 32 and the notes on pages 33 to 45 form an integral part of the financial statements. Report of the auditors is on page 26

*Holding Life Together*

THE EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED • ANNUAL REPORT 2004

# BALANCE SHEET

AS AT 30 JUNE 2004

	Note	2004 Sh'000	2003 Sh'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	10	4,977,485	5,113,025
Intangible assets	11	7,038	8,069
Prepaid operating lease rentals	12	16,366	16,443
Investment	13	1	1
Staff receivables	14	49,791	63,979
		5,050,681	5,201,517
<b>Current assets</b>			
Trade and other receivables	14	153,192	502,042
Inventories	15	705,745	687,476
Tax recoverable		1,276	37,066
Treasury bills	16(a)	-	318,996
Short term deposits	16(b)	1,318,952	483,589
Bank and cash balances		240,451	237,251
		2,419,616	2,266,420
<b>Total assets</b>		<b>7,470,297</b>	<b>7,467,937</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	17	450,000	450,000
Share premium		648,000	648,000
Revaluation reserve		291,519	472,314
Revenue reserve		255,444	423,842
Proposed dividend		157,500	157,500
		1,802,463	2,151,656
<b>Non current liabilities</b>			
Loans	18	4,035,965	3,650,184
Staff gratuity	19	417,721	389,880
Deferred tax	21	135,794	338,071
		4,589,480	4,378,135
<b>Current liabilities</b>			
Loans	18	359,873	309,893
Leave pay	22	36,814	20,869
Retirements benefits liability	20	111,390	-
Trade and other payables	23	570,277	607,384
		1,078,354	938,146
<b>Total liabilities</b>		<b>5,667,834</b>	<b>5,316,281</b>
<b>Total equity and liabilities</b>		<b>7,470,297</b>	<b>7,467,937</b>

The financial statements on pages 27 to 45 were approved by the board of directors on 24 September, 2004 and were signed on its behalf by:

**Benson Sande Ndeti - Chairman**  
**Ole Mapelu Zakayo - Managing Director**

The accounting policies on pages 31 to 32 and the notes on pages 33 to 45 form an integral part of the financial statements. Report of the auditors is on page 26

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004

	Share capital Sh'000	Share premium Sh'000	Revaluation reserve Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 30 June 2002	450,000	648,000	643,586	110,525	45,000	1,897,111
Net profit for the year	-	-	-	226,143	-	226,143
Transfer of excess depreciation	-	-	(244,674)	244,674	-	-
Deferred tax on transfer of excess depreciation	-	-	73,402	-	-	73,402
2002 - dividend declared	-	-	-	-	(45,000)	(45,000)
2003 - proposed dividend	-	-	-	(157,500)	157,500	-
At 30 June 2003	450,000	648,000	472,314	423,842	157,500	2,151,656
At 1 July 2003	450,000	648,000	472,314	423,842	157,500	2,151,656
Net loss for the year	-	-	-	(269,177)	-	(269,177)
Transfer of excess depreciation	-	-	(258,279)	258,279	-	-
Deferred tax on transfer of excess depreciation	-	-	77,484	-	-	77,484
2003 - dividend declared	-	-	-	-	(157,500)	(157,500)
2004 - proposed dividend	-	-	-	(157,500)	157,500	-
At 30 June 2004	450,000	648,000	291,519	255,444	157,500	1,802,463

The accounting policies on pages 31 to 32 and the notes on pages 33 to 45 form an integral part of the financial statements. Report of the auditors is on page 26

*Holding Life Together*

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 Sh'000	2003 Sh'000
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	24(a)	1,245,199	647,263
Interest paid		(108,260)	(111,614)
Interest received		24,612	24,713
Taxation paid		(3,652)	(3,692)
Staff gratuity paid		(19,672)	(68,113)
Leave days paid		(164)	-
Net cash generated from operating activities		1,138,063	488,557
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(208,393)	(112,975)
Purchase of intangible assets		(5,300)	(10,514)
Proceeds from sale of property, plant and equipment		5,541	2,035
Net cash used in investing activities		(208,152)	(121,454)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(157,500)	(32,862)
Loan repayment	24(b)	(252,844)	(240,922)
Net cash used in financing activities		(410,344)	(273,784)
INCREASE IN CASH AND CASH EQUIVALENTS		519,567	93,319
CASH AND CASH EQUIVALENTS AT 1 JULY		1,039,836	946,517
CASH AND CASH EQUIVALENTS AT 30 JUNE	24(c)	1,559,403	1,039,836

The accounting policies on pages 31 to 32 and the notes on pages 33 to 45 form an integral part of the financial statements. Report of the auditors is on page 26



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

### 1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years. The company's principal accounting policies are set out below:

**(a) Basis of accounting**

The financial statements are prepared under the historical cost convention modified to include the revaluation of certain property, plant and equipment.

**(b) Revenue recognition**

Sales represent revenue from the sale of cement to customers, net of taxes due to the government.

Sales are recognised when cement is delivered and the title has passed to the customers.

Interest income is recognised as it accrues, unless its collectibility is in doubt.

**(c) Taxation**

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

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

**(d) Property, plant and equipment**

Property, plant and equipment are stated at cost or at professionally revalued amounts less accumulated depreciation.

The company's policy is to professionally revalue property, plant and equipment at least once every five years.

**(e) Depreciation**

No depreciation is provided on freehold land.

Depreciation on other items of property, plant and equipment is calculated to write off the cost or the revalued amounts in equal annual instalments over their expected useful lives. The annual rates used are:

Buildings	2.5%
Plant and machinery	5 to 12.5%
Motor vehicles	25%
Office equipment, furniture and fittings	5 to 25%
Computers	33.3%

The annual depreciation attributable to revaluation surpluses on property, plant and equipment is transferred from the revaluation reserve to the revenue reserve. This excludes office equipment furniture and fittings, which are stated at cost.

**(f) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the company as the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are amortised on the straight line basis over the term of the relevant lease.

**(g) Intangible assets**

Expenditure on acquired computer software programs is capitalised and amortised on the straight-line basis over their expected useful lives, normally not exceeding three years.

**(h) Leasehold land**

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

**(i) Impairment**

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the 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 company estimates the recoverable amount of the cash generating unit to which the asset belongs.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value with the exception of livestock which is stated at fair value.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

Cost comprises direct materials and where applicable, direct labour costs and the overheads incurred in bringing the inventories to their present location and condition. Costs of direct materials are determined on the first-in first-out basis while those of general consumable stores are determined on the weighted average cost basis. Net realisable value represents the estimated selling price less the estimated cost to completion and costs to be incurred in marketing, selling and distribution.

Work in progress, which comprises of raw meal (slurry) and clinker, are stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and allocation of fixed and normal production overheads attributable to the process.

**(k) Investments**

The unquoted investment is stated at cost.

**(l) Financial instruments**

Financial assets and financial liabilities are recognised in the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

*Trade receivables*

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off when all reasonable steps to recover them have failed.

*Borrowings*

Interest bearing loans are recorded at the proceeds received. Finance charges are recognised on the accruals basis and are added to the carrying amount of the related instrument to the extent that they are not settled in the period they arise.

*Trade payables*

Trade payables are stated at their nominal value.

*Treasury bills*

Treasury bills are stated at redemption value less unearned discount

**(m) Currency translations**

Assets and liabilities that are denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling on the balance sheet date. Transactions during the

year, which are expressed in foreign currencies, are translated at the rates ruling on the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

**(n) Retirement benefits obligations**

The company operates a non-contributory defined benefits pension scheme for senior and supervisory staff as well as an in house gratuity scheme for unionisable employees. It also makes contributions to the statutory pension fund, the National Social Security Fund.

The company's obligations to all staff retirement benefits schemes are charged to the income statement as they fall due.

**(o) Segment reporting**

The company sells cement in both the local market, in Kenya, and neighbouring countries. The primary and only basis of segment reporting is limited to revenue by geographic regions. This basis of segment reporting is representative of the internal structure used for management reporting.

**(p) Cash flow statement**

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 date of disbursement or confirmation of the advance.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

	2004	2003
	Sh'000	Sh'000
<b>2 OPERATING PROFIT</b>		
The operating profit is arrived at after charging:		
Staff costs ( <b>Note 3</b> )	767,202	708,408
Depreciation	338,227	418,854
Amortisation		
- Software	6,331	5,271
- Prepaid operating lease rentals	77	77
Directors' emoluments:		
- Fees	1,098	355
- Other emoluments	13,336	3,593
Auditors' remuneration	1,750	1,530
Loss on sale of property, plant and equipment	165	-
And after crediting:		
Profit on sale of property, plant and equipment	-	160
<b>3 STAFF COSTS</b>		
Wages and salaries	683,708	570,493
Provision for staff gratuity - current year	47,513	36,160
- prior years	-	72,321
Pension contributions – defined benefits scheme	18,448	27,559
Leave pay provision	16,109	496
Social security costs (NSSF)	1,424	1,379
	767,202	708,408

The company had an average of 629 (2003 - 612) permanent employees, 287 (2003 - 290) casuals and 168 (2003 - 167) temporary employees during the year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 JUNE 2004

	2004 Sh'000	2003 Sh'000
<b>4 SELLING EXPENSES</b>		
Bad debts expense	159,098	44,090
Cement transport	129,617	268,555
Customs and other export levies	101,752	80,936
Advertising and sales commissions	36,245	30,584
Public relations costs	2,916	3,524
	<b>429,628</b>	<b>427,689</b>
<b>5 ADMINISTRATIVE EXPENSES</b>		
Staff costs	289,403	236,481
Office supplies	36,616	39,131
Depreciation	32,754	50,136
Telephone and postage	20,317	30,107
Board expenses	14,434	3,946
Printing and stationery	9,463	9,905
Office rent and rates	7,509	11,659
Office equipment and furniture	3,070	5,197
Fuel and motor vehicle expenses	2,709	2,894
Computer expenses	2,231	15,277
Trade licenses	1,378	268
Loss on disposal of fixed assets	166	-
	<b>420,050</b>	<b>405,001</b>
<b>6 (a) NET INTEREST COSTS</b>		
Interest receivable	(24,612)	(24,713)
Interest on bank overdrafts	415	3,854
Interest on loans	107,845	107,760
	<b>83,648</b>	<b>86,901</b>
<b>(b) FOREIGN CURRENCY EXCHANGE (LOSS) / GAIN</b>		
Unrealised exchange (loss)/gain on loans	(688,605)	254,283
Exchange gain on other foreign currency transactions and balances	50,973	44,239
	<b>(637,632)</b>	<b>298,522</b>

The unrealised exchange loss on loans arises from the translation of the Japanese Yen denominated loan to Kenya Shillings at the year end. The loss resulted from the depreciation of the Kenya Shilling against the Japanese Yen during the year. Between 1 July and 31 October 2004, the Kenya shilling has registered a depreciation of 4.04% (2003 – 16.22%) against the Japanese Yen resulting in an exchange loss of Sh172,875,269 (2003 – Sh 623,577,860).

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

FOR THE YEAR ENDED 30 JUNE 2004

	2004 Sh'000	2003 Sh'000
<b>7 EXCEPTIONAL ITEM</b>		
Retirement benefits scheme actuarial deficit (Note 20)	(111,390)	-
<b>8 TAXATION</b>		
<b>(a) Tax charge</b>		
Current taxation based on the adjusted profit for the year at 30%	2,376	329
Deferred tax charge - current year	(124,971)	147,148
- prior year under-provision	178	8,544
Deferred tax charge (Note 21)	(124,793)	155,692
	(122,417)	156,021
<b>(b) Reconciliation of expected tax based on accounting</b>		
Profit to the tax charge		
Accounting (loss)/profit before taxation	(391,594)	382,164
Tax at the applicable rate of 30%	(117,478)	114,649
Tax effect of expenses not deductible for tax purposes	43,170	34,823
Tax effect of non taxable income	(45,911)	(1,666)
Taxation on farming income treated as a separate source	(2,376)	(329)
Prior year under provision	178	8,544
	(122,417)	156,021
<b>9 (LOSS)/EARNINGS PER SHARE</b>		
The (loss)/earnings per share has been calculated on the loss after taxation of Sh 269,177,000 (2003 – profit of Sh 226,143,000) and the 90,000,000 shares in issue during the year.		
The diluted earnings per share is the same as the basic earnings per share.		

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land Sh'000	Buildings Sh'000	Plant and Machinery Sh'000	Motor Vehicles Sh'000	Office equipment, furniture and fittings Sh'000	Capital work in progress Sh'000	Total Sh'000
<b>COST OR VALUATION</b>							
At 1 July 2003	45,595	1,089,758	4,564,748	522,315	191,110	62,431	6,475,957
Reclassification	-	27,796	-	-	-	(27,796)	-
Additions	120	2,720	18,437	162,359	12,848	11,909	208,393
Disposals	-	-	-	(9,130)	-	-	(9,130)
<b>At 30 June 2004</b>	<b>45,715</b>	<b>1,120,274</b>	<b>4,583,185</b>	<b>675,544</b>	<b>203,958</b>	<b>46,544</b>	<b>6,675,220</b>
<b>COMPRISING:</b>							
Valuation - 2000	40,800	1,007,917	4,390,916	357,814	-	-	5,797,447
Cost	4,915	112,357	192,269	317,730	203,958	46,544	877,773
	45,715	1,120,274	4,583,185	675,544	203,958	46,544	6,675,220
<b>DEPRECIATION</b>							
At 1 July 2003	-	76,219	825,624	355,067	106,022	-	1,362,932
Reclassification	-	-	-	(14,768)	14,768	-	-
Charge for the year	-	27,247	235,628	59,188	16,164	-	338,227
Disposals	-	-	-	(3,424)	-	-	(3,424)
<b>At 30 June 2004</b>	<b>-</b>	<b>103,466</b>	<b>1,061,252</b>	<b>396,063</b>	<b>136,954</b>	<b>-</b>	<b>1,697,735</b>
<b>NET BOOK VALUE</b>							
At 30 June 2004	45,715	1,016,808	3,521,933	279,481	67,004	46,544	4,977,485
At 30 June 2003	45,595	1,013,539	3,739,124	167,248	85,088	62,431	5,113,025

At 30 June 2004, plant and machinery, vehicles and equipment with cost/valuation amounting to Sh 345,409,006 (2003 – Sh 280,623,770) were fully depreciated. The notional depreciation charge on these assets would have been Sh 102,655,180 (2003 – Sh 96,108,497). The revaluation was done three years ago by Lloyd Masika. Most of the equipment became fully depreciated in the year.

Capital work in progress relate to amounts incurred towards construction of a clinker shed.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in plant and machinery at year-end is idle equipment with a cost amounting to Sh 130,671,981 (2003 – Sh 130,671,981) which is fully depreciated, in respect of the old plant which was rendered idle when the new plant was commissioned five years ago. The old plant is still usable if demand requires its recommissioning.

If property, plant and equipment were carried in the financial statements at historical cost, the balances at 30 June 2004 would have been as follows:

	2004 Sh'000	2003 Sh'000
Cost	6,929,111	6,729,846
Accumulated depreciation	(2,219,741)	(2,064,623)
Net book value	4,709,370	4,665,223

One property was revalued as at 30 June 2002 by Lloyd Masika Limited, Registered Valuers and Estate Agents on open market value basis.

Other property, plant and equipment with the exception for idle old plant, office equipment, furniture and fittings, were revalued as at 30 June 2000 by Lloyd Masika Limited, Registered Valuers and Estate Agents. Land was valued on open market basis whereas all the other assets were valued on the basis of depreciated replacement cost. The company's policy is to revalue property, plant and equipment at least once every five years.

Included in freehold land is land with a value of Sh 395,000 whose title deeds are in the name of third parties and Sh 15,000,000 whose title deed is missing and whose ownership is being claimed by Mathare Investments Properties Limited. However, in the opinion of the directors, the company has proper title to the property.

### 11 INTANGIBLE ASSETS – COMPUTER SOFTWARE

#### COST

	2004 Sh'000	2003 Sh'000
At 1 July	15,813	5,299
Additions	5,300	10,514
At 30 June	21,113	15,813

#### AMORTISATION

	2004 Sh'000	2003 Sh'000
At 1 July	7,744	2,473
Charge for the year	6,331	5,271
At 30 June	14,075	7,744

#### NET BOOK VALUE

	2004 Sh'000	2003 Sh'000
At 30 June	7,038	8,069

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh'000	2003 Sh'000
<b>12 PREPAID OPERATING LEASE RENTALS</b>		
COST		
At 1 July 2003 and 30 June	16,597	16,597
AMORTISATION		
At 1 July	154	77
Charge for the year	77	77
At 30 June	231	154
NET BOOK VALUE		
At 30 June	16,366	16,443
Included in prepaid operating lease rentals is land carried in the financial statements at a value of Sh 4,763,755 whose title deeds are either missing or being followed up with the Kenya Government Lands Registrar.		
<b>13 INVESTMENT</b>	2004 Sh'000	2003 Sh'000
Unquoted investment in an associated company at cost	1	1
The associated company, Portland Mines Company Limited, remains dormant. The company's interest in the associated company is 50%.		
<b>14 TRADE AND OTHER RECEIVABLES</b>	2004 Sh'000	2003 Sh'000
Trade receivables	81,085	234,997
Staff receivables	74,269	100,882
Deposits and prepayments	46,693	226,640
Sundry receivables	936	3,502
	202,983	566,021
Less: Staff receivables not recoverable within 12 months	(49,791)	(63,979)
	153,192	502,042
<b>15 INVENTORIES</b>		
Work in progress	259,387	99,025
Consumables	206,928	280,740
Raw materials	119,549	204,865
Cement	88,799	84,872
Goods in transit	14,454	5,127
Livestock	16,628	12,847
	705,745	687,476



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh'000	2003 Sh'000
<b>16 CASH AND CASH EQUIVALENTS</b>		
(a) Treasury bills		
Redemption Value	-	320,000
Less: Unearned discount	-	1,004
	-	318,996

The cost of the treasury bills in 2003 was Sh 315,863,050 with a maturity of 3 months at an average effective interest of 5%.

	2004 Sh'000	2003 Sh'000
(b) Short term deposits		
The Co-operative Bank of Kenya Limited	796,011	281,434
Kenya Commercial Bank Limited	422,866	164,982
Standard Chartered Bank Kenya Limited	100,075	37,173
	1,318,952	483,589

The short term deposits mature by September 2004 and the weighted average interest rate earned on the deposits during the year was 2.1% (2003 - 2.3 %).

The company has a bank overdraft facility of up to Kenya shillings 219,600,000 with Kenya Commercial Bank Limited and the amounts drawn against this facility attract interest at market rates. The facility is secured by a legal charge over certain properties owned by the company, Land Reference numbers 337/639, 8649, 9767, 8785 and 8786 and a debenture over the company assets for Sh 219,600,000 respectively. No amounts were drawn against this facility as at 30 June 2004.

	2004 Sh'000	2003 Sh'000
<b>17 SHARE CAPITAL</b>		
Authorised: 126,000,000 shares of Sh 5 each	630,000	630,000
Authorised, issued and fully paid: 90,000,000 shares of Sh 5 each	450,000	450,000

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh'000	2003 Sh'000
<b>18 LOANS (UNSECURED)</b>		
The Overseas Economic Co-operation Fund of Japan (OECF) loan guaranteed by Kenya Government, denominated in Japanese Yen and repayable in 41 half yearly instalments by 20 March 2020; interest at 2.5% per annum	4,308,332	3,871,069
Loan from Kenya Government (6th Danish loan) repayable in 50 equal half yearly instalments by 31 December 2020; interest at 15% per annum	87,506	89,008
	4,395,838	3,960,077
Less: repayable within one year	(359,873)	(309,893)
	4,035,965	3,650,184
<b>19 STAFF GRATUITY</b>		
This represents outstanding obligations in respect of staff gratuity payable under the Collective Bargaining Agreement for unionisable staff. The movement during the year was as follows:		
	2004 Sh'000	2003 Sh'000
Balance at 1 July	389,880	349,512
Withdrawals	(19,672)	(68,113)
Additional provision	47,513	108,481
Balance at 30 June	417,721	389,880
<b>20 RETIREMENT BENEFITS LIABILITY</b>		
Deficit arising from valuation during the year - charged to the income statement (Note 25)	(111,390)	-
This represents the deficit between the fair value of the Scheme's assets and the total value of past service pension benefits and outstanding benefits payments following the actuarial valuation carried out as of 30 April 2004 by Alexander Forbes Financial Services (EA) Limited, Consultants & Actuaries.		

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

	2004 Sh'000	2003 Sh'000
<b>21 DEFERRED TAX</b>		
The net deferred tax liability is attributable to the following items:		
Accelerated capital allowances on property, plant and equipment	790,692	862,563
Unrealised exchange (loss)/gain	(191,044)	76,420
Tax losses available for future tax relief	(497,212)	(714,043)
Provision for staff gratuity	(125,316)	(116,964)
Provision for staff leave pay	(11,044)	(6,261)
Revaluation surpluses on property, plant and equipment	171,201	248,685
Provision for stocks	-	(12,329)
General bad debts provision	(1,483)	-
	<b>135,794</b>	<b>338,071</b>
The movement on the deferred tax account is as follows:		
At 30 June	338,071	255,781
Income statement charge for the year (Note 8(a))	(124,793)	155,692
Credited to revaluation reserve	(77,484)	(73,402)
At 30 June 2004	<b>135,794</b>	<b>338,071</b>
<b>22 LEAVE PAY</b>		
This represents outstanding obligations in respect of leave days accrued as at year end. The movement during the year was as follows:		
	2004 Sh'000	2003 Sh'000
Balance at 1 July	20,869	20,374
Withdrawals	(164)	-
Additional provision	16,109	495
Balance at 30 June	<b>36,814</b>	<b>20,869</b>
<b>23 TRADE AND OTHER PAYABLES</b>		
Trade payables	397,936	353,609
Expense accruals	92,230	68,237
Unclaimed dividends	35,913	35,912
Advance receipts from customers	29,969	138,308
Sundry payables	14,229	11,318
	<b>570,277</b>	<b>607,384</b>

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2004 Sh'000	2003 Sh'000
<b>24 CASH FLOW STATEMENT</b>		
<b>(a) Reconciliation of operating profit to cash generated from operations</b>		
Operating profit	441,076	170,543
Adjustments for:		
Depreciation and amortisation	344,635	424,202
Loss/(profit) on sale of property, plant and equipment	165	(160)
Exchange gains	50,974	44,239
Staff gratuity	47,513	108,481
Leave pay provision	16,109	495
Withholding tax write-off	37,066	-
Retirement benefits scheme actuarial deficit	111,390	-
Operating profit before working capital changes	1,048,928	747,800
Increase in inventories	(18,269)	(23,248)
Decrease/(increase) in trade and other receivables	363,038	(235,942)
(Decrease)/increase in trade and other payables	(37,108)	158,653
Increase in retirement benefits liability	(111,390)	-
Cash generated from operations	1,245,199	647,263
<b>(b) Movement in loans</b>		
Balance at 1 July	3,960,077	4,455,282
Foreign currency exchange loss/(gain)	688,605	(254,283)
Repayments during the year	(252,844)	(240,922)
Balance at 30 June	4,395,838	3,960,077
<b>(c) Analysis of cash and cash equivalents</b>		
Short term deposits	1,318,952	483,589
Bank and cash balances	240,451	237,251
Treasury bills	-	318,996
	1,559,403	1,039,836

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 RETIREMENT BENEFITS OBLIGATIONS

The company operates a non-contributory defined benefits pension scheme for senior and supervisory staff. The scheme is administered independently by Aon Minet Insurance Brokers Limited, while its investments are managed by Genesis Kenya Investment Management Limited.

The scheme is subjected to triennial valuations by independent Actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) rules 1994 and the Retirement Benefits Rules 2000. The last actuarial valuation was carried out as at 30 April 2004 by Alexander Forbes Financial Services (EA) Limited, Consultants and Actuaries. The actuarial valuation method adopted entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The accrued (past service) liability in respect of each in service Scheme member is taken as the present value of all benefit accrued at the valuation date by reference to the projected final earnings at date of retirement or earlier exit, subject to a minimum of the accumulated contributions by and in respect of the employer with interest to the valuation date.

The key actuarial assumptions applied in the valuation were:

Investment returns	10% per annum
Rate of salary escalation	8% per annum
Rate of pension increases	3% per annum

This actuarial valuation revealed that the market value of the assets of the scheme was Sh 120,386,000 and the total accrued liabilities was Sh 231,776,000 indicating a past service deficit of Sh 111,390,000 and representing a funding level of 51.94%. This is below the 80% minimum funding level allowed by the Retirement Benefit Authority and, accordingly, an accrual for the deficit has been reflected in the financial statements. The Company intends to convert the scheme to a defined contribution scheme with fixed Company and member contributions.

Contributions to this scheme during the year amounted to Sh 18,448,000 (2003- Sh 27,559,000).

The company also operates an in-house gratuity scheme for unionisable employees. Contributions to this gratuity scheme are governed by a collective bargaining agreement that is reviewed triennially and was last reviewed on 15 July 2002. These contributions are not invested or managed as a separate fund but are self funded and are fully provided for in the company's financial statements.

The company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the statutory scheme are determined by local statute and are currently limited to Sh 200 per employee per month from November 2002. The company's contributions are charged to the income statement in the year to which they relate. Contributions to this scheme during the year amounted to Sh 1,424,000 (2003 – Sh 1,379,000).

	2004 Sh'000	2003 Sh'000
<b>26 SEGMENT REPORTING - GEOGRAPHICAL</b>		
Segment revenue attributable to cement sales in:		
Local market - Kenya	3,692,796	3,401,971
Regional market (East and Central Africa)	473,493	440,167
	<b>4,166,289</b>	<b>3,842,138</b>

The farming activity is carried out locally and is insignificant with respect to the financial statements.

Sales to the Regional market are done through a depot whose net assets constitute less than 5% of the company's total net assets. Segment reporting with respect to net assets is, therefore, not considered of any real value.

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 FINANCIAL INSTRUMENTS

The nature of activities and policies with respect to financial instruments are:

#### Exchange Risk

The company's operations are predominantly in Kenya, where the currency has remained relatively stable against major convertible currencies.

The major portion of the company's loans are denominated in foreign currencies, principally the Japanese Yen. The company does not hedge its foreign currency risks on these borrowings.

#### Interest rate risk

The company has a variable rate borrowing used to fund ongoing activities.

#### Credit risk

In the normal course of its business, the company is exposed to credit risk from customers. The credit risk is, however, managed through management's constant monitoring of the status of the credit worthiness of its customers. The company has no significant concentration of credit risk, with exposure spread over a large number of customers.

#### Fair value

There is no material difference between the fair value and the carrying value of the company's financial assets and liabilities.

	2004 Sh'000	2003 Sh'000
<b>28 CONTINGENT LIABILITIES</b>		
Pending law suits		
VAT assessed	230,333	77,934
Guarantees	142,675	142,675
	-	29,224
	373,008	249,833

Pending law suits relate to legal proceedings involving the company for breach of contract and loss of business as a result of trucks repossessed. However, in the opinion of the directors, no liability is likely to crystallise. During the year ended 30 June 2003, the company received an assessment from Kenya Revenue Authority relating to VAT of Sh 142,675,000. The Company has since objected to this assessment and, in the opinion of the directors, no liability is likely to crystallise.

No contingent liability figures have been disclosed in respect of two litigation matters filed in the High Court of Kenya against the company in relation to the claims for unquantified general damages and loss of earnings for the plaintiffs. Due to the unavailability of information required for a proper quantification of the damages and losses suffered, if any, it is not possible to give an estimate of the contingent liabilities attributable to these cases.

These cases are as detailed below:

- In High Court, as alleged in civil case number 18 of 2004, the claim is for specific performance of an alleged contract dated 2 April 2003 under which the plaintiff claims to be entitled, upon achieving a sales target of 30,000 metric tonnes, to receive discounts of 18.9% for the period April 2003 to April 2004, discount of 12% for the period 3 April 2004 to 3 April 2005 and discount of 8% for the period 4 April 2005 to 4 April 2006. EAPCC disputed the existence of the alleged contract and terminated the purported contract. The plaintiff's claim is for recovery of the loss of discounts. EAPCC has counterclaimed against the plaintiff for the sum of Sh 442 million as the amount wrongfully paid to and received by the plaintiff under the said purported contract.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- In High Court civil case number 154 of 2004, the claim is for unquantified general damages on the grounds that due to alleged unfair trade practices by EAPCC, the plaintiffs suffered losses due to loss of profit and earnings, charges on bank facilities, idle securities with the bank, idle infrastructure of staff, vehicle, stores, equipment and installations and idle capital in terms of deposits and investments.

	2004 Sh'000	2003 Sh'000
<b>29 CAPITAL COMMITMENTS</b>		
Authorised by the directors but not contracted for	300,000	543,400
Authorised by the directors and contracted for	237,000	213,000

### 30 RELATED PARTY TRANSACTIONS

Loans to directors are on terms similar to those applicable to other employees. The outstanding balances at the year end were:

	2004 Sh'000	2003 Sh'000
Loan to a director	-	4,995

These balances are included in staff receivables (Note 14).

### 31 OPERATING LEASE RENTALS

Outstanding commitments under operating leases due;

	2004 Sh'000	2003 Sh'000
Not later than 1 year	4,758	3,962
Later than 1 year but not later than 2 years	4,758	3,962
	9,516	7,924

### 32 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act, domiciled in Kenya and is listed on the Nairobi Stock Exchange.

### 33 CURRENCY

These financial statements are presented to the nearest thousand Kenya Shillings (Sh '000).

*Holding Life Together*

## NOTES





## NOTES