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OUR VISION, OUR MISSION

Vision

To be the preferred provider of cement and cement products in Eastern Africa.

Mission

To manufacture and market quality cement and cement products to the satisfaction of our customers.

2007/0892

Greening the Earth

East African Portland Cement Company has launched the Adopt -a-Tree Initiative to rehabilitate the environment around quarry areas.

Notice is hereby given that the 73rd Annual General Meeting of The East African Portland Cement Company Limited will be held at the factory, Athi River, on Friday, December 2, 2005 at 12:00 noon for the following purposes:-

ORDINARY BUSINESS

1. To confirm the minutes of the 72nd Annual General Meeting held on December 16, 2004.
2. To receive the Chairman's Report.
3. To receive and consider the Financial Statements for the year ended June 30, 2005 together with the reports of the directors and auditors thereon.
4. To declare a first and final dividend of Sh2.50 per share in respect of the Financial Year ended June 30, 2005 as recommended by the directors.
5. To elect directors:-

   (i) In accordance with Article 99 of the company's Articles of Association, the following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election.

   - Mr B.S. Ndeta
   - Mr S. ole Kantai

   (ii) In accordance with Article 83 of the company's Articles of Association, Mr D. Nalo retires at this meeting and, being eligible, offers himself for re-election.

6. To note that Deloitte & Touche, who were appointed by the Controller and Auditor-General as authorised auditors, have expressed their willingness to continue in office subject to being re-appointed in accordance with Section 39(1) of the Public Audit Act 2003 and to authorise the directors to fix their 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: 19 August 2005

Note: 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.

BOARD OF DIRECTORS

Mr Benson Sande Ndeta
Chairman

Mr Ole Mapelu Zakayo
Managing Director

Mr Joseph Kinyua
Director

Mr David Nalo
Director

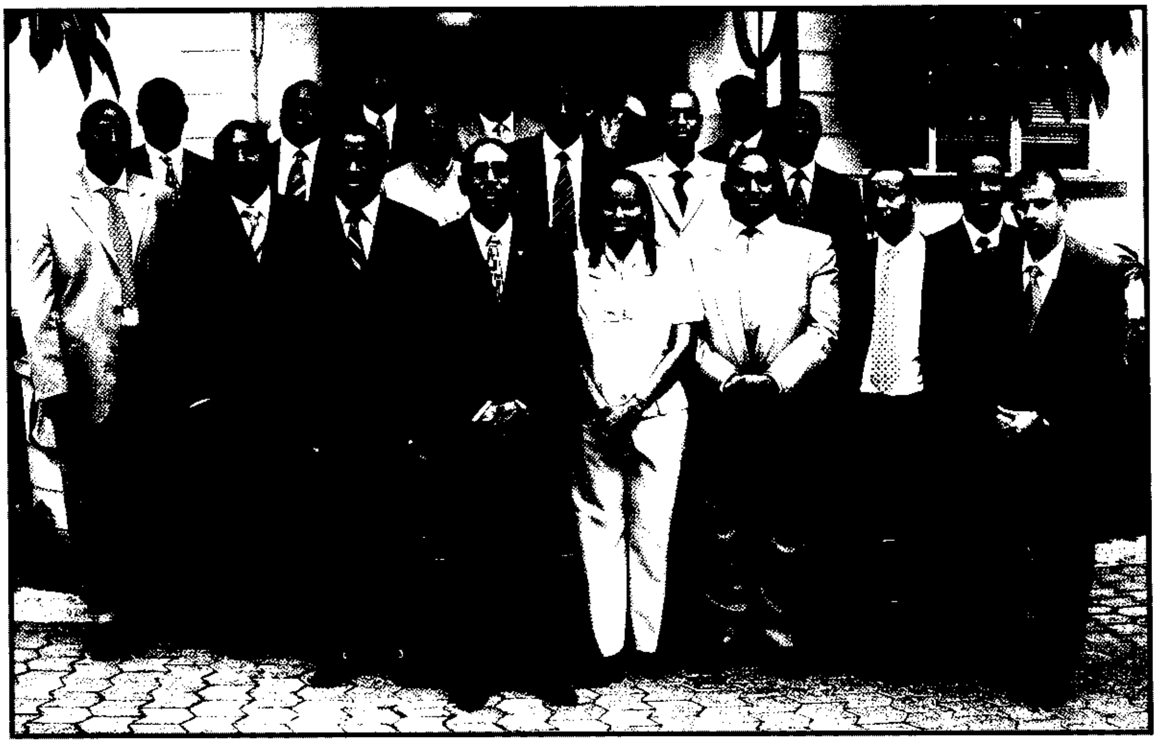
Mr R. Anthony Hadley
Director

Mr Naftali O. Mogere
Director

Mr Geoffrey C.D. Groom
Director

Mr Sankale ole Kantai
Director

Mr J.L.G. Maonga
Company Secretary



MANAGEMENT EXECUTIVE TEAM

First row, left to right: Peter Korir (Corporate Planning & Performance Manager), Alex Mutisya (Deputy GM-Works), Caleb Kapten (GM-Commercial), Ole Mapelu Zakayo (MD), Jane Kaguathi (PA to the MD), Boniface Kamau (GM-Finance), Charles Kaloki (IT Manager), Salim Daghar (Maintenance Manager).
Second row, left to right: Ng'eny Biwott (Security, Health & Environment Safety Manager), David Maingi (Corporate Affairs & PR Manager), Kagio Ndegwa (GM-Works), Sam Odera (Ag. HR Planning & Development Manager), Ali Haji (Legal Affairs Manager), Ivor Wekesa (Internal Audit Manager), Tom Waiharo (Commercial Manager)
Third row, left to right: Kananga M'Nchebere (Technical Manager), Charles Obock (Manufacturing Performance Manager), Rosemary Gituma (Finance Manager), Joe Kithyaka (Club Manager).

DIRECTORS

B.S. Ndeta	Chairman
Ole Mapelu Zakayo	Managing Director
S. ole Kantai	
G.C.D. Groom	
R.A. Hadley*	(Alternate – K.H.W. Keith)
J.K. Kinyua	(Alternate – J. Kinyanjui)
N. Mogere	(Alternate – A. Odero)
D. Nalo	(Alternate – Mrs M.C. Rotich)

* British

SECRETARY

J.L.G. Maonga
Certified Public Secretary (Kenya)
P O Box 30029-00100
Nairobi

REGISTERED OFFICE

LR 337/113/1
Namanga Road, off Mombasa Road
P O Box 40101-00100, Nairobi

REGISTRARS

Haki Registrars
P.O. Box 40868-00100
Nairobi

BANKERS

Kenya Commercial Bank Ltd.
Standard Chartered Bank Kenya Ltd.
Standard Chartered Bank Uganda Ltd.
The Co-operative Bank of Kenya Ltd.
Barclays Bank of Kenya Ltd.
Stanbic Bank Kenya Ltd.

AUDITORS

The Controller and Auditor General
P.O. Box 30084 - 00100 GPO
Nairobi

Vice-President Moody Awori (left) has a word with Dr Mukhisa Kituyi, the Minister for Trade and Industry, during EAPCC's ceremony to announce the full-year results in August 2005.

SHAREHOLDING STRUCTURE

[illegible]	[illegible]	[illegible]
NSSF	27.0	24,300,000
GOK	25.0	22,800,000
CEMENTIA (LAFARGE)	14.6	13,180,000
BCI	14.6	13,140,000
BAMBURI (NOMINEES)	12.5	11,270,000
OTHERS	6.3	5,310,000
TOTAL	**100**	**90,000,000**

SHARE DISTRIBUTION SCHEDULE

[illegible]	[illegible]	[illegible]	[illegible]
1-1,000	421	216,841	0.24
1,001-5,000	222	526,071	0.58
5,001-10,000	60	435,093	0.48
10,001-50,000	36	670,41B	0.74
50,001-100,000	4	247,668	0.28
Over 100,000	12	87,903,909	97.67
	755	**90,000,000**	**100.00**

The directors present their report together with the audited financial statements of the company for the year ended June 30 2005.

ACTIVITIES

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

RESULTS	Sh'000
Profit before taxation	1,086,280
Taxation charge	(478,408)
Net profit for the year	607,872

DIVIDEND

The directors propose the payment of a first and final dividend of Sh2.50 per share, totalling Sh225,000,000 in respect of the year ended June 30, 2005.

DIRECTORS

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

With effect from August 24, 2005, Mr A. Odero was appointed in place of Mrs M.W. Ndirangu as alternate director to Mr N. Mogere.
With effect from August 24, 2005, Mr D. Nalo was appointed director in place of Dr N.K. Ng'eno and Mrs C. Rotich continued as alternate director to Mr D. Nalo.

In accordance with Article 99 of the Company's Articles of Association, Mr B.S. Ndeta and Mr S. ole Kantai retire and, being eligible, offer themselves for re-election.
In accordance with Article 83, Mr D. Nalo retires at this meeting and being eligible, offers himself for re-election.

AUDITORS

Deloitte & Touche, who have been appointed as authorised auditors by the Controller and Auditor General have expressed their willingness to continue in office in accordance with the provisions of Section 159(2) of the Companies Act (Cap. 486) and subject to Section 39(1) of the Public Audit Act; 2003.

BY ORDER OF THE BOARD

Secretary
Nairobi
August 24, 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

It also requires the directors to ensure the company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the 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.

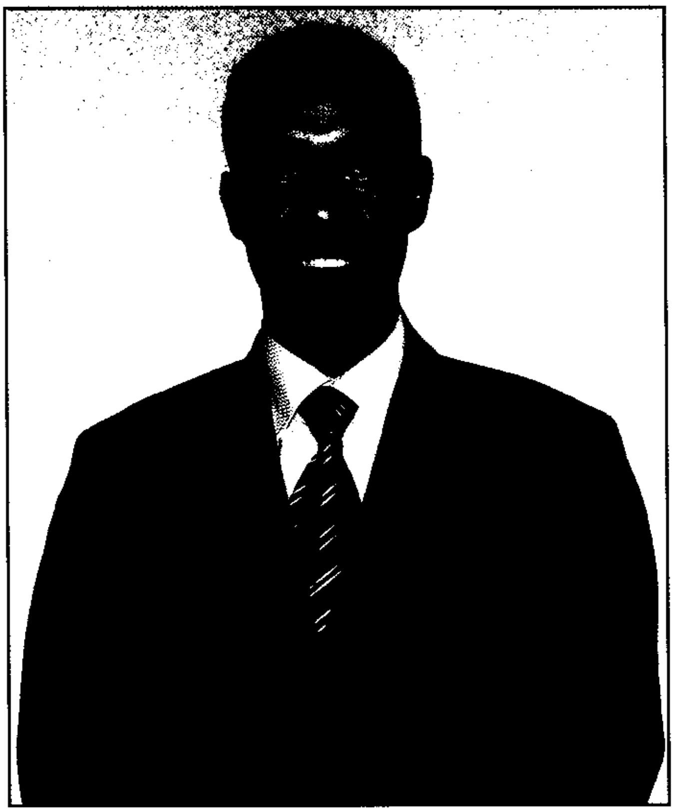
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least 12 months from the date of this statement.

B.S. Ndeta Director
Chairman

Ole Mapelu Zakayo
Managing Director

August 24, 2005

It is my great pleasure to welcome you to the 73rd Annual General Meeting of the East African Portland Cement Company. I wish to thank you all for your continued interest and express my gratitude to the many new shareholders who decided to invest in our company during the past year. It was a momentous year that saw the company deliver strong returns to our shareholders while continuing to invest in our staff, technology, as well as contributing to numerous activities in the communities within which we operate.



Mr B.S. Ndeta, Chairman

Business Environment

I am very pleased to report that the economic outlook for Kenya and the region is on an upward trend. The year under review saw the overall Kenyan economy grow at 4.3%, while the manufacturing sector registered a remarkable16% growth. Internally, we focused our energies on minimising our production cost, maximising our operation efficiency, streamlining our procurement processes and initiating a wide range of cost saving measures. These coupled with a stringent financial discipline saw us register impressive results during the year, with a pre-tax profit of Sh1.086 billion, a tremendous increase from a loss of Sh391 million in the prior year. We increased our revenue and operating income at a compounded annual growth rate of 28.7% and 109.2% respectively. This was achieved in spite of increase in operating costs related to energy, transport and raw materials.

The excellent results and major achievements are the outcome of our effort and desire to invest in all areas of our business, our people, our plant and our product. We will continue to translate these results into sustainable value for you.

Dividends

Our cash position remains healthy and EAPCC is well positioned to resist the ebb and flow of the business cycle. In that context, and considering that our treasury increased by Sh733 million, the board is pleased to recommend a dividend of Sh2.50 per share. This represents a 43% increase above last year's dividend

Taxation

As a good corporate citizen, EAPCC is committed to paying taxes promptly as required by law. During the year under review, the company was recognised by KRA as a distinguished taxpayer as we paid in excess of Sh1 billion in both direct and indirect taxes to the exchequer.

Future Outlook

Going forward, we are relentlessly and continually searching for better ways to improve in order to grow more efficiently and profitably. Our strategy for growth will involve growing existing markets, expanding

> ‘We nonetheless have campaigns that educate and counsel our employees while maintaining a policy that prohibits any form of discrimination’
>
> — *B.S. Ndeta*

and deepening the cement share of the construction industry and taking advantage of opportunities across the value chain. Our growth catalyst in the medium term will come from emerging regional markets. However, our primary market in Kenya still offers sustainable, long-term and organic growth potential and will remain our main focus. Our ongoing structural initiatives in procurement, energy and information technology will enable us to control our costs, make better informed decisions and manage our company with greater agility.

We will pursue high discipline investments that create value for our shareholders, customers and employees alike. In that light, we are investing in a state-of-art 80-tonne-per-hour cement mill that will ensure we meet the needs of a growing market while considerably lowering our energy and production costs.

Nurturing Tomorrow's Leaders Today

These ambitious plans need wholehearted commitment from a charged, disciplined and motivated team with a passion for change. Our company is a learning organisation deeply devoted to our employee developments. We place great emphasis on the role played by our employees and we will continue to be involved in offering skills they need to succeed in a continuously evolving business environment. We have continued to attract quality staff and are fully committed to creating an environment that unlocks their full potential. We maintain remuneration policies that are market-led but performance driven and additionally continue to develop a wide range of staff incentive schemes. The success of these strategies is demonstrated by the passion, discipline, dedication and teamwork of our employees, which has been fundamental in delivering our objectives.

Corporate Social Responsibility

In terms of community investments, the company made far-reaching decisions and aims to make a positive and sustainable impact on communities we operate in. We have made a deliberate effort to support projects that protect and conserve the environment and ones that will improve and positively impact on the lives of the people around us. We will increase our support in areas of the environment, health, education and sports across the country.

Health and Safety

The health and safety of our employees continue to be a high priority. In this regard, therefore, we have put in place strategies to ensure an accident-free environment in our plant. Like the larger society, we have not been insulated against HIV/Aids. We nonetheless have launched campaigns to educate and counsel our employees while maintaining a policy that prohibits any form of discrimination against anyone on the basis of their known or assumed HIV status.

Corporate Strategies

During the year the company developed a five-year corporate strategic plan. We will embrace conventional ICT innovations to facilitate the achievement of our corporate objectives. Our ICT strategic plan had to be realigned to promote integration, standardisation and consolidation of resource utilisation. This will enable us to achieve operational efficiency and effectiveness in areas of administration, engineering and asset maintenance, as well as increasing our ability to deliver integrated solutions that offer enhanced value proposition to our customers.

Corporate Governance

As a company, we continue to be committed to the tenets of good corporate governance and sound business ethics. The board has in place a charter and a code of ethics that will align our corporate behaviour with the expectations of our shareholders and other stakeholders. We will continue to identify with and share best practice across the entire company structure.

The Board

The board remained largely unchanged with the exception of Dr N.K. Ng'eno, who moved to the Ministry of Planning. I extend our appreciation and thanks for his contribution and at the same time welcome on the board of directors his replacement, Mr David S.O. Nalo.

Appreciation

We are extremely pleased with the remarkable turnaround of the company's fortune. We believe the company has in place a solid foundation for sustainable growth that will be necessary to deliver superior returns to our shareholders.

I most sincerely thank the board of directors for their unity of purpose, continued support and wise counsel.

I also congratulate the entire management and staff for their dedication and commitment that has successfully positioned us for the challenges and opportunities that lie ahead.

Lastly, I would like to extend my gratitude to all our business partners and customers for their loyalty and unwavering support.

As we continue on our path of profitable growth, I trust you will come along with us.

B.S. Ndeta
CHAIRMAN

PERFORMANCE OVERVIEW

Held up against the backdrop of a loss making past, our performance during the year under review went well beyond our expectations. Buoyed by a vibrant industry that saw the demand for cement grow by about 15%, our sales revenue grew by a proportionate 29%, from Sh4.1 billion to Sh5.3 billion, marking the first time the company's sales revenue hit the Sh5 billion mark.

Other milestones achieved during the period under review included the increase of our market capitalisation from Sh2 billion to Sh10 billion, as well as growing our gross profit by 21%, from Sh1.3 billion to Sh1.57 billion.

Although our cost of sales increased marginally, we were able to reduce our overheads by a significant 24%, from Sh860 million in 2004 to Sh655 million in 2005. Coming down from a pre-tax loss of Sh391 million in the year 2003/2004, we managed to post a pre-tax profit of Sh1.086 billion during the year under review. This is a watershed in our corporate history.

Corporate strategies

During the year under review, we grew our production output to optimal levels and tailored our operations and processes so as to put the customer at the centre of our business.

At the same time, we improved management approaches and rationalised our trading terms. The effective marketing strategy saw us sustain our market share and distribution targets locally, as well as rationalising our presence in Uganda. We also continued supporting our business in Rwanda, as well as spreading our wings to Southern Sudan, where our product is already being used.

The profit we realised was also as a result of improved plant efficiency, as well as optimum utilisation and supervision. Better management of maintenance and repair costs coupled with competitive sourcing also contributed to the impressive results.

Other factors that augured well for our operations included efficient financial and operational management, better internal control systems, a motivated staff force and focus on key operations.

Core commitments

Our commendable results, which were achieved during a period of hardship, have emboldened us to continue with our commitment to meet our obligations to our shareholders, for whom we undertake to create more wealth.

To our Government: We hope to meet our statutory obligations and good corporate citizenry.

To our employees: We will continue to offer a more challenging and positive work environment.

Inside the Control Room at the cement plant. The manufacturing process is closely monitored to achieve efficiency and quality.

To our suppliers: We promise to meet our business partnership obligations in business.

To our customers: We will continue to provide quality and reliable products at all times.

Future focus

As we forge into the future with the hope of increasing our profitability even further, we envisage a good opportunity to enlarge the cement share of the construction industry by promoting and demonstrating the advantage of cement over competing materials, particularly in the building of roads.

We will also grow the existing markets and take advantage of any opportunities across the value chain. We will continue exercising prudent capital allocation to ensure the most productive use of our shareholders' investment.

At the same time, we will speed up the process of expanding our grinding capacity to meet growing cement demand locally and in the region. Besides these strategic growth plans, we aim to continue strengthening our financial position and widening access to capital sources.

EAPCC will continue exercising prudent capital allocation to ensure the most productive use of shareholders' investment.

Corporate Social Responsibility

During the year under review, we achieved a remarkable corporate transformation from an organisation that pursued elusive profitability for years into a corporate that not only treasures and cares for its staff but also extends its goodwill to communities living around its premises and outposts.

To lay a firm foundation for our new approach to cementing our linkage with communities, we formulated a corporate social responsibility policy, under which we have helped fund many social projects, including sports, education, health, the environment, as well as donating money and materials to charity.

As a result, our corporate profile changed from being a closed manufacturing firm to not only a major player in the industry but also a firm stakeholder in the country's collective effort to improve quality of life.

CSR: Changing lives at Kabini

We provide outstanding support to the communities in which we operate because good corporate citizenship is part of our core commitments.

We pay great attention to corporate ethics, vision, leadership and environmental conservation.

We are keenly focused on coexisting in harmony with communities in which our employees and partners work and live.
An outstanding example of our efforts to improve the lives of local communities is the Kabini Community Project.

Our firms' involvement in the activities of the community around Kabini promotes the principles of corporate social responsibility by drawing the attention of other companies wishing to follow our example.

The Kabini projects are evaluated on the basis of their capacity to involve the local people in efforts to improve their own lot.
In other words, we endeavour to not only create wealth and build assets but also to contribute to the welfare of the local community and protect the environment.

We find many ways in which we can provide more than just work to the communities living around our quarrying areas. Our commitment to the Kabini community is more than just a project; it is a permanent mark of corporate social responsibility.

The Kabini programme covers projects in the fields of health, education, as well as offering professional assistance and financing. Local communities select projects of their choice and take the lead role in implementation.

Among the landmark projects are:
Boreholes — Electrification of a borehole at Elerai, which cost the company over Sh1 million.

Mr Ole Mapelu Zakayo, the Managing Director, presents a bursary cheque to pupils in the Kabini area, Sultan Hamud, under the company's CSR programme.

Education — Renovation of Kibini Primary School; building of a girls' hostel to promote girl-child education, supplying water to the school from one of the company's boreholes; a bursary fund of Sh500,000 to assist the community in paying fees (secondary, tertiary and university); one orphan schoolgirl has been assisted to continue with her education.
Dams — Norkiu Dam, with a holding capacity of 50 million cubic litres, was dug by the company and is now full to capacity Imatoi and Olmaram dams were de-silted.
Employment — Members of the local community have benefited in a great way.

Successful corporate governance is achieved through 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 embodied by the core tenets of corporate governance. Through this process the shareholders and other stakeholders get the assurance that the company is managed according to prudently determined risk parameters in compliance with the law and generally accepted corporate practice.

The board places a high premium 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 corporate governance principles.

ROLES AND RESPONSIBILITIES

Shareholders

The shareholders' role is to appoint the Board of Directors and external auditors. This role is extended to holding the board accountable and responsible for efficient and effective governance.

The board is responsible for governing the company and conducts the business and operations of the company with integrity and in accordance with generally accepted corporate practices based on transparency, accountability and responsibility.

Executive Committee

The committee is chaired by Mr Benson S. Ndeta (chairman of the board and non-executive director), whose other members are the Managing Director and five non-executive directors.

The board meets whenever issues necessitating a meeting arise, but at any rate not less than four times a year.

BOARD OF DIRECTORS

In line with conventional 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 strategy and day-to-day management of the company to the Managing Director. It, however, retains the overall responsibility for financial and operating decisions and monitoring performance of senior management.

The board meets on a regular basis and has a formal schedule of matters reserved for it and it also has access to the internal audit of the company, the company secretary and the legal counsel. The board has appointed a number of sub-committees to which it has delegated certain responsibilities with the chairpersons of the sub-committees reporting to the board.

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

COMMITTEES OF THE BOARD

The board has appointed four sub-committees, which meet regularly under the terms of reference set by the Board.

Audit Committee

The committee is chaired by Mr Sankale ole Kantai, who is an independent and non-executive director. It comprises three non-executive directors and its meetings are attended by the General Manager, Internal Audit Manager and representatives of the external auditors. It meets at least once every quarter and also before every board meeting. The functions of the committee include:-

- Evaluation and improvement of management information and internal control systems.
- 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 audit to review the nature and scope of audit.
- Review of major findings of internal and external audit reports and management's response.
- Discussion of problems and reservations arising from internal and final audits and any other matters the external auditors may wish to discuss.

The committee also reviews bi-annuallythe authority, resources and scope of internal audit with a view to strengthening the effectiveness of internal and external audit.

Human Resources and Remuneration Committee

The committee meets quarterly or as required. It is responsible for monitoring and appraising the performance of senior management, including the Managing Director, reviewing of all human resources policies, determining the remuneration of senior management and making recommendations to the board on the remuneration of non-executive directors.

Production line workers busy at the cement plant. The cement packing process and materials used meet the recommended international standards.

Technical Committee

The committee meets quarterly or as required and is chaired by the board chairman. 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 quarterly or as required 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.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the Financial Year 2005 are disclosed in note 2 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 get benefits by means of acquisition of the company's shares.

CORPORATE GOALS

Environment Health & Safety

The company is committed to protecting the health and safety of all individuals affected by its activities, including employees, contractors and the public. We emphasise environmental protection and stewardship and recognise that pollution prevention, biodiversity and resource conservation are key to a sustainable environment. We effectively integrate these concepts into our business decision-making.

Stakeholder Relations

We endeavour to engage stakeholders clearly, honestly and respectfully, and we are committed to timely and meaningful dialogue with all of them.

Employee Relations

We ensure that employees are treated fairly and with dignity so as to enable them to achieve their career goals and aspirations.

We apply fair labour practices, while respecting national laws, as well as the customs, believes and interests of the communities within which we operate.

We offer equal opportunity in all aspects of employment and will not engage in or tolerate unlawful work place conduct, including discrimination, intimidation, or harassment.

Human Rights

We work with the governments in the countries where we sell our products, as well as non-governmental agencies to advocate respect for human rights.

We never tolerate human rights abuses, and do not engage in any activities that would encourage human rights abuse.

The financial statements on pages 19 to 37 for the year ended June 30, 2005, which have been prepared on the basis of the accounting policies set out on pages 23 to 25, have been audited on my behalf by the auditors appointed under Section 39 of the Public Audit Act, 2003.

The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations, which to the best of my knowledge were necessary for the purpose of the audit, were obtained. The financial statements are in agreement with the books of account.

Respective Responsibility of the Directors and the Controller and Auditor-General

As stated on page 8, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of the affairs of the company and of its operating results. My responsibility is to express an independent opinion of the financial statements based on the audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amount and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Opinion

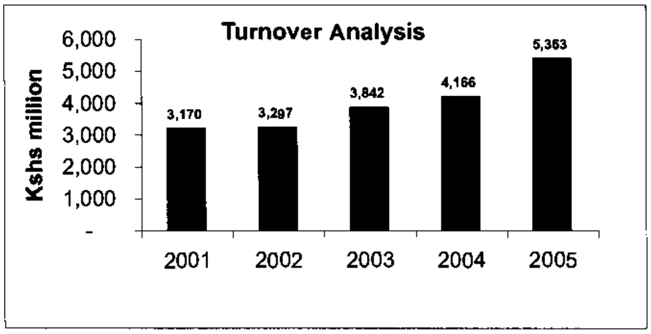
In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company as at June 30, 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486.

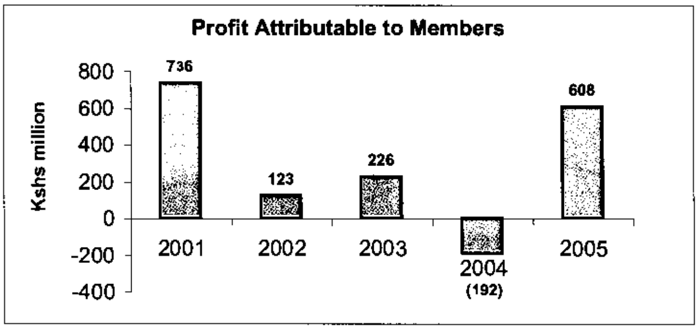
E.N. MWAI
CONTROLLER AND AUDITOR-GENERAL

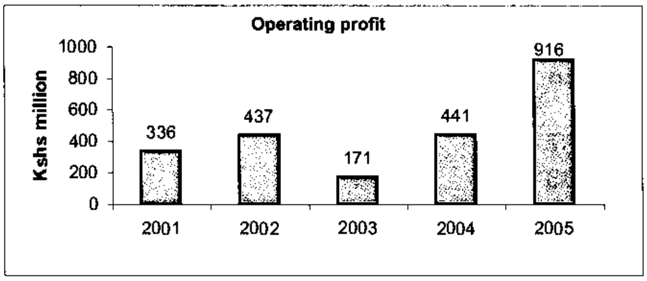
Nairobi
October 7, 2005

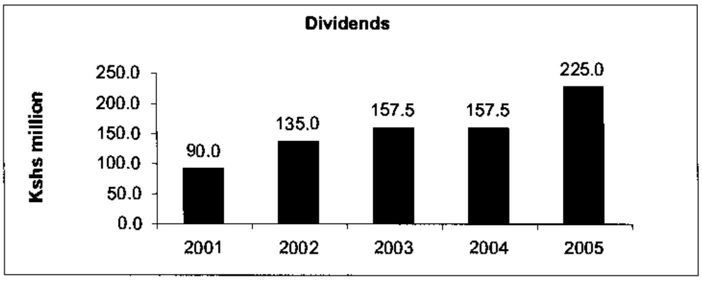
FIVE YEAR FINANCIAL REVIEW

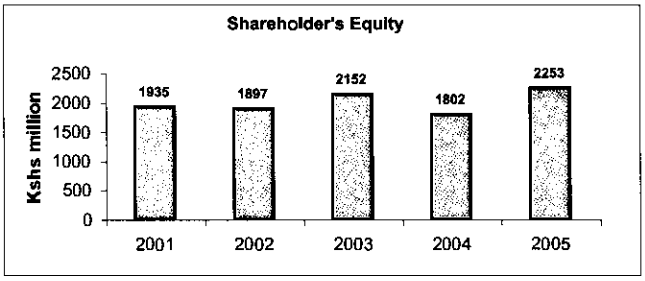
	2001	2002	2003	2004	2005
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Turnover	3,169,645	3,207,060	3,842,138	4,166,289	5,363,196
Operating profit	335,889	436,544	170,543	441,076	915,698
Foreign currency exchange Gain/ (Loss)	736,108	(145,492)	298,522	(637,632)	199,549
Profit / (Loss) before tax	974,384	212,934	382,164	(391,594)	1,086,280
Taxation credit / (Charge)	(237,899)	(89,755)	(156,021)	199,901	(478,408)
Profit /(Loss) Attributable to Members	**736,485**	**123,179**	**226,143**	**(191,693)**	**607,872**
Dividends	**90,000**	**135,000**	**157,500**	**157,500**	**225,000**
Capital Employed					
Assets					
Non current	5,717,866	5,440,126	5,201,517	5,067,309	4,768,043
Current	1,787,159	1,974,527	2,266,420	2,402,988	2,949,837
Total assets	**7,505,025**	**7,414,653**	**7,467,937**	**7,470,297**	**7,717,880**
Equity & Liabilities					
Capital and reserves	1,934,552	1,897,111	2,151,656	1,802,463	2,252,835
Non current liabilities	4,758,686	4,730,968	4,378,135	4,589,480	4,570,362
Current liabilities	811,787	786,574	938,146	1,078,354	894,683
Total Equity & Liabilities	**7,505,025**	**7,414,653**	**7,467,937**	**7,470,297**	**7,717,880**
Earnings per Share (Kshs)	**8.18**	**1.37**	**2.51**	**(2.13)**	**6.75**
Dividends per share (Kshs)	**1.00**	**1.50**	**1.75**	**1.75**	**2.50**

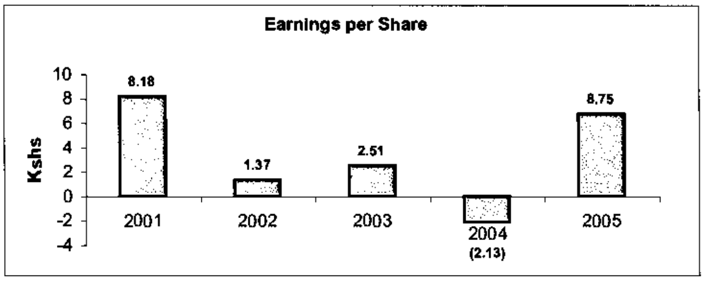

Turnover Analysis
Kshs million
6,000
5,000
4,000
3,000
2,000
1,000
-
3,170
3,297
3,842
4,166
5,363
2001
2002
2003
2004
2005

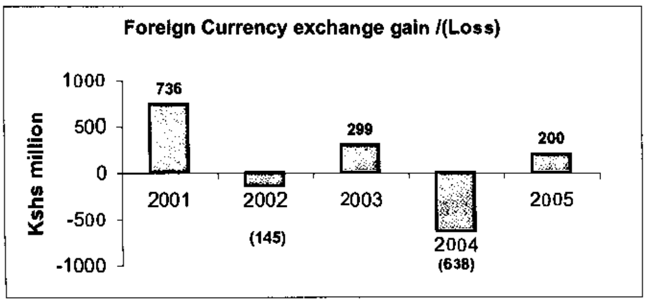

Profit Attributable to Members
Kshs million
800
600
400
200
0
-200
-400
736
123
226
608
2001
2002
2003
2004
(192)
2005

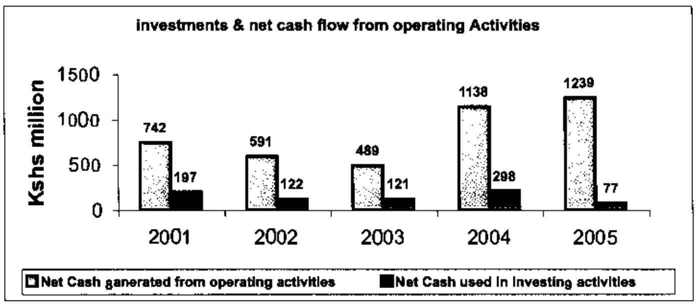

Operating profit
Kshs million
1000
800
600
400
200
0
336
437
171
441
916
2001
2002
2003
2004
2005


Dividends
Kshs million
250.0
200.0
150.0
100.0
50.0
0.0
90.0
135.0
157.5
157.5
225.0
2001
2002
2003
2004
2005

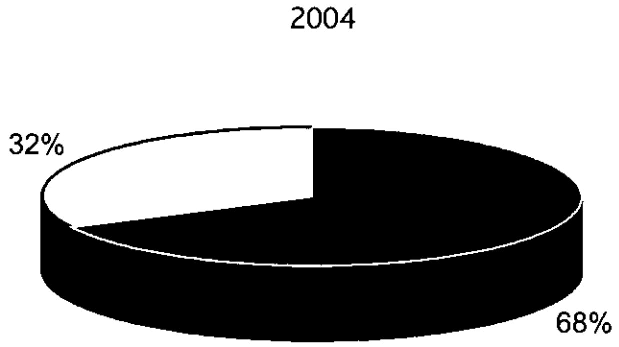

Shareholder's Equity
Kshs million
2500
2000
1500
1000
500
0
1935
1897
2152
1802
2253
2001
2002
2003
2004
2005

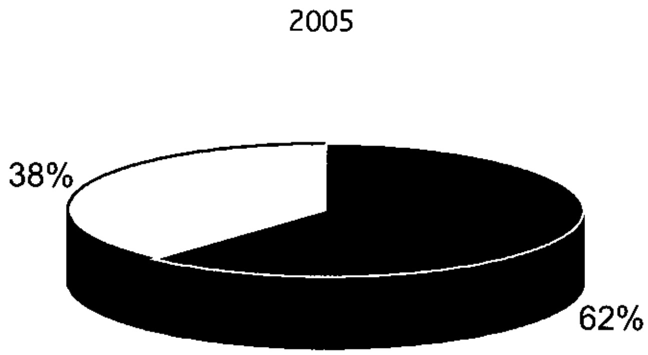

Earnings per Share
Kshs
10
8
6
4
2
0
-2
-4
8.18
1.37
2.51
8.75
2001
2002
2003
2004
(2.13)
2005


Foreign Currency exchange gain /(Loss)
Kshs million
1000
500
0
-500
-1000
736
299
200
2001
2002
(145)
2003
2004
(638)
2005


Investments & net cash flow from operating Activities
Kshs million
1500
1000
500
0
742
197
591
122
489
121
1138
298
1239
77
2001
2002
2003
2004
2005
Net Cash generated from operating activities
Net Cash used in investing activities

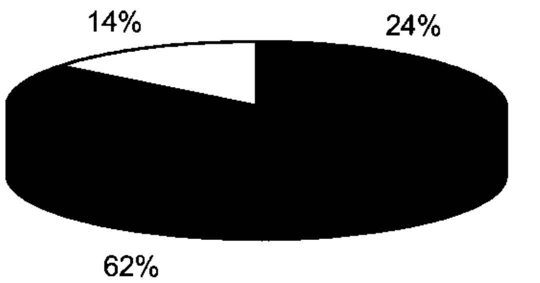
DISTRIBUTION OF ASSETS

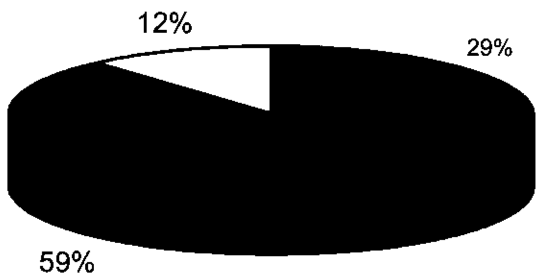




	2004 Shs'million	2005 Shs'million
Non current Assets	5,067	4,768
Current Assets	2,403	2,950
	7,470	**7,718**

DISTRIBUTION OF EQUITY AND LIABILITIES





	2,004 Shs'million	2,005 Shs'million
Capital and reserves	1,803	2,253
Non current liabilities	4,589	4,570
Current liabilities	1,078	895
	7,470	**7,718**

	Note	2005 Sh'000	2004 Sh'000
Sales		5,363,196	4,166,289
Cost of sales		(3,792,132)	(2,864,653)
Gross profit		1,571,064	1,301,636
Other operating income		43,183	43,202
Selling expenses	4	(281,963)	(429,628)
Administrative expenses	5	(367,339)	(420,050)
Other operating expenses		(52,391)	(56,842)
Farm net revenue		3,144	2,758
Operating profit	2	915,698	441,076
Net interest costs	6(a)	(28,967)	(83,648)
Foreign currency exchange gain/(loss)	6(b)	199,549	(637,632)
Profit/(loss) before exceptional item		1,086,280	(280,204)
Exceptional item	7	-	(111,390)
Profit/(loss) before taxation		1,086,280	(391,594)
Taxation (charge)/credit	8	(478,408)	199,901
Net profit/(loss) for the year		607,872	(191,693)
Earnings/(loss) per share (basic and diluted)	9	Sh 6.75	Sh (2.13)

BALANCE SHEET

	Note	2005 Sh'000	2004 Sh'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	4,718,248	4,977,485
Intangible assets	11	4,876	7,038
Prepaid operating lease rentals	12	14,299	16,366
Investment	13	1	1
Biological assets	14	19,620	16,628
Staff receivables	16	10,999	49,791
		4,768,043	5,067,309
Current assets			
Inventories	15	519,706	689,117
Trade and other receivables	16	128,532	153,192
Tax recoverable	17	9,512	1,276
Short term deposits	18	2,061,513	1,318,952
Bank and cash balances		230,574	240,451
		2,949,837	2,402,988
Total assets		**7,717,880**	**7,470,297**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	450,000	450,000
Share premium		648,000	648,000
Revaluation reserve		472,239	497,538
Revenue reserve		457,596	49,425
Proposed dividend		225,000	157,500
Shareholders' funds		2,252,835	1,802,463
Non-current liabilities			
Staff gratuity	20	424,463	417,721
Deferred taxation	21	611,962	135,794
Borrowings	22	3,533,937	4,035,965
		4,570,362	4,589,480
Current liabilities			
Borrowings	22	363,656	359,873
Trade and other payables	23	466,703	570,277
Retirements benefits liability provision	24	18,811	111,390
Leave pay provision	25	45,513	36,814
		894,683	1,078,354
Total equity and liabilities		**7,717,880**	**7,470,297**

The financial statements on pages 19 to 37 were approved by the Board of Directors on August 24, 2005 and were signed on its behalf by:

B.S. Ndeta - **Chairman**

Ole Mapelu Zakayo - **Managing Director**

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Revenue reserve Shs'000	Proposed dividend Shs'000	Total Shs'000
At July 1, 2003	450,000	648,000	472,314	423,842	157,500	2,151,656
2003 - Dividend declared	-	-	-	-	(157,500)	(157,500)
Reclassification of revaluation surplus	-	-	99,410	(99,410)	-	-
Transfer of excess depreciation	-	-	(105,980)	105,980	-	-
Deferred tax on excess depreciation	-	-	31,794	(31,794)	-	-
Net loss for the year	-	-	-	(191,693)	-	(191,693)
2004 - proposed dividend	-	-	-	(157,500)	157,500	-
At June 30, 2004	450,000	648,000	497,538	49,425	157,500	1,802,463
At July 1, 2004	450,000	648,000	497,538	49,425	157,500	1,802,463
2004 - Dividend declared	-	-	-	-	(157,500)	(157,500)
Transfer of excess depreciation	-	-	(36,141)	36,141	-	-
Deferred tax on excess depreciation	-	-	10,842	(10,842)	-	-
Net profit for the year	-	-	-	607,872	-	607,872
2005 - Proposed dividend	-	-	-	(225,000)	225,000	-
At June 30, 2005	450,000	648,000	472,239	457,596	225,000	2,252,835

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

	Note	2005 Sh'000	2004 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	26(a)	1,278,412	1,225,363
Interest paid		(107,308)	(108,260)
Interest received		78,341	24,612
Taxation paid		(11,752)	(3,652)
Net cash generated from operating activities		1,237,693	1,138,063
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(75,610)	(208,393)
Purchase of intangible assets		(4,663)	(5,300)
Proceeds from sale of property, plant and equipment		3,022	5,541
Net cash used in investing activities		(77,251)	(208,152)
FINANCING ACTIVITIES			
Dividends paid		(157,500)	(157,500)
Loan repayments	26(b)	(270,258)	(252,844)
Net cash used in financing activities		(427,758)	(410,344)
INCREASE IN CASH AND CASH EQUIVALENTS		732,684	519,567
CASH AND CASH EQUIVALENTS AT JULY 1		1,559,403	1,039,836
CASH AND CASH EQUIVALENTS AT JUNE 30	26(c)	2,292,087	1,559,403

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 and 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, and livestock, which is stated at fair value.

(b) Revenue recognition

Revenue is recognised upon delivery of goods and when title has passed to customers, net of taxes due to the government.

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% or period of lease whichever is less
Plant and machinery	5 to 12.5%
Motor vehicles	25%
Office equipment, furniture and fittings	5 to 25%
Computers	33.3%

The excess annual depreciation attributable to revaluation surplus on property, plant and equipment is transferred annually from the revaluation surplus to the revenue reserve.

(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 leasee. 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.

1 ACCOUNTING POLICIES (Continued)

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

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

(k) Biological assets

Livestock is stated at fair value less estimated point of sale costs.

(l) Investments

The unquoted investment is stated at cost less any accumulated impairment losses.

(m) 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.

(n) 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.

1 ACCOUNTING POLICIES (Continued)

(o) Retirement benefits obligations

The company is now operating a 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.

(p) 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.

(q) 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.

(r) Comparatives

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

2 OPERATING PROFIT

	2005 Sh'000	2004 Sh'000
The operating profit is arrived at after charging:		
Directors' emoluments:		
- Fees	1,260	1,098
- Other emoluments	19,722	19,388
Auditors' remuneration	1,925	1,750
Depreciation	333,865	338,227
Amortisation		
- Software	6,825	6,331
- Prepaid operating lease rentals	76	77
Staff costs (Note 3)	884,248	764,793
Loss on sale of property, plant and equipment	-	166
And after crediting:		
Profit on sale of property, plant and equipment	(2,435)	-

3 STAFF COSTS

	2005 Sh'000	2004 Sh'000
Wages and salaries	761,346	681,299
Provision for staff gratuity - current year	62,554	47,513
Pension contributions - defined benefits scheme	48,961	18,448
Leave pay provision	8,699	16,109
Social security costs (NSSF)	2,688	1,424
	884,248	764,793

The company had an average of 505 (2004 - 497) permanent employees and 634 (2004 - 665) casuals.

		2005 Sh'000	2004 Sh'000
4	**SELLING EXPENSES**		
	Bad debts expense	30,030	159,098
	Cement transport	155,112	129,617
	Customs and other export levies	46,376	101,752
	Advertising and sales commissions	46,081	36,245
	Public relations costs	4,364	2,916
		281,963	429,628
5	**ADMINISTRATIVE EXPENSES**		
	Staff costs	256,458	283,351
	Depreciation	23,755	32,754
	Board expenses	20,982	20,486
	Telephone and postage	16,688	20,317
	Office rent and rates	12,835	7,509
	Office supplies	12,352	36,616
	Printing and stationery	10,523	9,463
	Computer expenses	9,233	2,231
	Fuel and motor vehicle expenses	2,237	2,709
	Trade licenses	1,246	1,378
	Office equipment and furniture	1,030	3,070
	Loss on disposal of fixed assets	-	166
		367,339	420,050
6	**(a) NET INTEREST COSTS**		
	Interest receivable	(78,341)	(24,612)
	Interest on bank overdrafts	474	415
	Interest on loans	106,834	107,845
		28,967	83,648
(b)	**FOREIGN CURRENCY EXCHANGE GAIN/(LOSS)**		
	Exchange gain/(loss) on loan	227,987	(688,605)
	Exchange (loss)/gain on other foreign currency transactions and balances	(28,438)	50,973
		199,549	(637,632)

The exchange gain/loss on loan arises mainly from the translation of the Japanese Yen denominated loan to Kenya shillings at the year end. The gain resulted from the appreciation of the Shilling by 5.6% (2004 – depreciation of 18.25%) against the Yen during the year. Between July 1, 2005 and August 24, 2005, the Shilling has remained at a stable exchange rate against the Yen.

		2005 Sh'000	2004 Sh'000
7	**EXCEPTIONAL ITEM**		
	Retirement benefits scheme actuarial deficit (Note 24)	-	(111,390)
8	**TAXATION**		
(a)	Tax charge/(credit)		
	Current taxation based on the adjusted profit for the year at 30% (note 17)	2,240	2,376
	Deferred tax charge/(credit) - current year	331,903	(124,971)
	- past year under/(over)-provision	144,265	(77,306)
	Deferred tax charge/(credit) (Note 21)	476,168	(202,277)
		478,408	(199,901)
(b)	Reconciliation of expected tax based on accounting profit/(loss) to the tax charge/(credit)		
	Accounting profit/(loss) before taxation	1,086,280	(391,594)
	Tax at the applicable rate of 30%	325,884	(117,478)
	Tax effect of expenses not deductible for tax purposes	14,979	38,418
	Tax effect of non taxable income	-	(45,911)
	Taxation on farming income treated as a separate source	2,240	2,376
	Prior year under/(over) provision	144,265	(77,306)
		478,408	(199,901)

9 EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share has been calculated on the profit after taxation of Sh607,872,000 (2004 – loss of Sh191,693,000) and the 90,000,000 (2004 – 90,000,000) shares in issue during the year.

There were no potentially dilutive ordinary shares outstanding at 30 June 2005 or 30 June 2004. The diluted earning per share is therefore the same as the basic earning per share.

10 PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	Freehold land Shs'000	Buildings Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Computers office equipment furniture & fittings Shs'000	Capital work in progress Shs'000	Total Shs'000
At July 1, 2004	45,715	1,120,274	4,583,185	675,544	203,958	46,544	6,675,220
Additions	-	2,488	37,404	13,303	13,485	8,930	75,610
Capitalisation of work in progress	-	39,486	-	-	-	(39,486)	-
Disposals	-	-	-	(6,428)	-	-	(6,428)
Write-off	(395)	-	-	-	-	-	(395)
Reclassification	-	-	(1,570)	-	1,570	-	-
At June 30, 2005	45,320	1,162,248	4,619,019	682,419	219,013	15,988	6,744,007
COMPRISING:							
Valuation - 2000	28,300	1,007,917	4,390,916	357,814	-	-	5,784,947
- 2002	12,500	-	-	-	-	-	12,500
Cost	4,520	154,331	228,103	324,605	219,013	15,988	946,955
	45,320	1,162,248	4,619,019	682,419	219,013	15,988	6,744,007
DEPRECIATION							
At July 1, 2004	-	103,466	1,061,252	396,063	136,954	-	1,697,735
Charge for the year	-	28,069	238,204	51,648	15,944	-	333,865
Disposals	-	-	-	(5,841)	-	-	(5,841)
At June 30, 2005	-	131,535	1,299,456	441,870	152,898	-	2,025,759
NET BOOK VALUE							
At June 30, 2005	45,320	1,030,713	3,319,563	240,549	66,115	15,988	4,718,248
At June 30, 2004	45,715	1,016,808	3,521,933	279,481	67,004	46,544	4,977,485

At June 30, 2005, plant and machinery, vehicles and equipment with cost/valuation amounting to Sh502,997,058 (2004 – Sh473,474,407) were fully depreciated. The notional depreciation charge on these assets would have been Sh116,019,338 (2004 – Sh108,067,511). Capital work in progress relate to amounts incurred towards construction of a clinker shed.

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in plant and machinery is idle equipment with a cost amounting to Sh130,671,981 (2004 - Sh130,671,981), which is fully depreciated in respect of the old plant rendered idle when the new plant was commissioned.

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

	2005 Sh'000	2004 Sh'000
Cost	6,974,308	6,929,111
Accumulated depreciation	(2,916,132)	(2,219,741)
Net book value	4,058,176	4,709,370

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

Other properties, plant and equipment with the exception of the idle old plant, office equipment, furniture and fittings, were revalued as at June 30, 2000 by Lloyd Masika Limited, Registered Valuers and Estate Agents. The freehold 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. The next revaluation was due as at June 30, 2005. However, this will now be carried out as at December 31, 2005.

11 INTANGIBLE ASSETS – Computer software

	2005 Sh'000	2004 Sh'000
COST		
At July 1	21,113	15,813
Additions	4,663	5,300
At June 30	25,776	21,113
AMORTISATION		
At July 1	14,075	7,744
Charge for the year	6,825	6,331
At June 30	20,900	14,075
NET BOOK VALUE		
At June 30	4,876	7,038

12 PREPAID OPERATING LEASE RENTALS

	2005 Sh'000	2004 Sh'000
COST		
At July 1	16,597	16,597
Write off	(2,000)	-
At June 30	14,597	16,597
AMORTISATION		
At July 1	231	154
Charge for the year	76	77
Eliminated on write off	(9)	-
At June 30	298	231
NET BOOK VALUE		
At June 30	14,299	16,366

Included in prepaid operating lease rentals is land carried in the financial statements at a cost of Sh4,408,330, whose title deeds are missing and matter is being followed up with the Kenya Government Lands Registrar.

13 INVESTMENT

	2005 Sh'000	2004 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%.

14 BIOLOGICAL ASSETS

Biological assets represent the value of livestock, which is stated at market value less estimated transport and point of sale costs.

15 INVENTORIES

	2005 Sh'000	2004 Sh'000
Consumables	211,824	206,928
Raw materials	220,488	119,549
Work in progress	22,165	259,387
Finished products	46,216	88,799
Goods in transit	19,013	14,454
	519,706	689,117

		2005 Sh'000	2004 Sh'000
16	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	71,558	81,085
	Staff receivables	34,417	74,269
	Deposits, prepayments and other receivables	33,556	47,629
		139,531	202,983
	Less: Staff receivables not recoverable within 12 months	(10,999)	(49,791)
		128,532	153,192
17	**TAX RECOVERABLE**		
	Balance at July 1	1,276	37,066
	Charge for the year (note 8(a))	(2,240)	(2,376)
	Withholding tax written off in the year	(1,276)	(37,066)
	Paid in the year	11,752	3,652
		9,512	1,276
18	**CASH AND CASH EQUIVALENTS**		
	Short term deposits		
	The Co-operative Bank of Kenya Limited	662,648	796,011
	Kenya Commercial Bank Limited	499,874	422,866
	Standard Chartered Bank Kenya Limited	898,991	100,075
		2,061,513	1,318,952

The short term deposits mature by November 2005 and the weighted average interest rate earned on the deposits during the year was 4.6 % (2004 - 2.1 %).

The company has a bank overdraft facility of Sh.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 Number 337/639, 8649, 9767, 8785 and 8786 and a debenture over company assets for Sh.219,600,000 respectively. No amounts were drawn against this facility as at June 30, 2005.

		2005 Sh'000	2004 Sh'000
19	**SHARE CAPITAL**		
	Authorised:		
	126,000,000 shares of Sh5 each	630,000	630,000
	Authorised, issued and fully paid: 90,000,000 shares of Sh5 each	450,000	450,000

20 STAFF GRATUITY

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:

	2005 Sh'000	2004 Sh'000
Balance at July 1	417,721	389,880
Paid during the year	(55,812)	(19,672)
Provision for the year	62,554	47,513
Balance at June 30	424,463	417,721

21 DEFERRED TAX

The net deferred tax liability is attributable to the following items:

	2005 Sh'000	2004 Sh'000
Accelerated capital allowances on property, plant and equipment	744,653	790,692
Unrealised exchange loss	(122,649)	(191,044)
Revaluation surpluses on property, plant and equipment	184,125	171,201
Tax losses available for future tax relief	(51,345)	(497,212)
Provision for staff gratuity	(127,339)	(125,316)
Provision for staff leave pay	(13,654)	(11,044)
General bad debts provision	(1,758)	(1,483)
Provision for stocks	(71)	-
	611,962	135,794

The movement on the deferred tax account is as follows:

	2005 Sh'000	2004 Sh'000
At July 1	135,794	338,071
Income statement charge/(credit) for the year (Note 8(a))	476,168	(202,277)
At June 30	611,962	135,794

		2005 Sh'000	2004 Sh'000
22	**LOANS (UNSECURED)**		
	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 March 20, 2020; interest at 2.5% per annum - Japanese yen 5,479,800,000 (2004 - Japanese yen 5,845,120,000)	3,786,361	4,278,523
	Loan from Kenya Government (6th Danish loan) repayable in 50 equal half yearly instalments by December 31, 2020; interest at 15% per annum	24,048	27,255
	Accrued interest	87,184	90,060
		3,897,593	4,395,838
	Less: Repayable within one year	(363,656)	(359,873)
		3,533,937	4,035,965
23	**TRADE AND OTHER PAYABLES**		
	Trade payables	330,673	397,936
	Other payables and accruals	64,938	106,459
	Unclaimed dividends	36,329	35,913
	Advance receipts from customers	34,763	29,969
		466,703	570,277
24	**RETIREMENT BENEFITS LIABILITY**		
	Balance at July 1	111,390	-
	Deficit arising from actuarial valuation charged to the income statement (Note 27)	-	111,390
	Paid in the year	(92,579)	-
	Balance at June 30	18,811	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 at April 30, 2004 by Alexander Forbes Financial Services (EA) Limited, Consultants & Actuaries. Sh92,579,000 was paid to the scheme during the year.

25 LEAVE PAY PROVISION

This represents outstanding obligations in respect of leave days accrued as at year end. The movement during the year was as follows:

	2005 Sh'000	2004 Sh'000
Balance at July 1	36,814	20,869
Net additional provision	8,699	15,945
Balance at June 30	45,513	36,814

		2005 Sh'000	2004 Sh'000
26	**CASH FLOW STATEMENT**		
(a)	Reconciliation of operating profit to cash generated from operations		
	Operating profit	915,698	441,076
	Adjustments for:		
	Depreciation and amortisation	340,766	344,635
	(Profit)/loss on sale of property, plant and equipment	(2,435)	165
	Exchange (loss)/gains realised	(28,438)	50,973
	Staff gratuity provision	62,554	47,513
	Leave pay provision	8,699	16,110
	Withholding tax write-off	1,276	37,066
	Land written off (notes 10 and 12)	2,386	-
	Retirement Benefits Scheme actuarial deficit provision	-	(111,390)
	Operating profit before working capital changes	1,300,506	826,148
	Decrease/(increase) in inventories	166,419	(18,269)
	Decrease in trade and other receivables	63,452	363,038
	(Decrease)/increase in trade and other payables	(103,574)	74,282
	Staff gratuity paid	(55,812)	(19,672)
	Leave days paid	-	(164)
	Retirement benefits liability paid	(92,579)	-
	Cash generated from operations	1,278,412	1,225,363
(b)	Movement in loans		
	Balance at July 1	4,395,838	3,960,077
	Foreign currency exchange (gain)/loss	(227,987)	688,605
	Repayments during the year	(270,258)	(252,844)
	Balance at June	3,897,593	4,395,838
(c)	Analysis of cash and cash equivalents		
	Short term deposits	2,061,513	1,318,952
	Bank and cash balances	230,574	240,451
		2,292,087	1,559,403

27 RETIREMENT BENEFITS OBLIGATIONS

The company now (with effect from July 1, 2005) operates a contributory defined benefit pension scheme for senior and supervisory staff. The scheme was previously a non contributory defined benefits pension scheme. 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 fulfill the statutory requirements under the Income Tax (Retirement Benefits) rules 1994 and the Retirement Benefits Rules 2000. An actuarial valuation was carried out as at April 30, 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 Sh120,386,000 and the total accrued liabilities was Sh212,965,000 indicating a past service deficit of Sh92,579,000 and representing a funding level of 56.53%. This is below the 80% minimum funding level allowed by the Retirement Benefit Authority and, accordingly, an accrual for the deficit of Sh111,390,000 was reflected in the financial statements for 2004. The company paid to the scheme Sh92,579,000 in the current year.

Contributions to this scheme during the year amounted to Sh.48,961,000 (2004 - Sh.18,448,000).

Another actuarial valuation was carried out at June 30, 2005. Preliminary results of the valuation indicates that no actuarial deficit will arise and therefore no additional provision is required.

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 December 21, 2004. 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 Sh200 per employee per month. 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 Sh2,688,000 (2004 – Sh.1,424,000).

		2005 Sh'000	2004 Sh'000
28	**SEGMENT REPORTING - GEOGRAPHICAL**		
	Segment revenue attributable to cement sales in:		
	Local market - Kenya	4,777,535	3,692,796
	Regional market (East and Central Africa)	585,661	473,493
		5,363,196	4,166,289

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.

29 FINANCIAL RISKS

The nature of activities and policies with respect to financial risks 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 which is subject to exchange rate fluctuations. The company has not hedged its foreign currency risk on this borrowing. The company is currently looking at various options available for the immediate settlement of this loan.

Credit risk

The credit risk is managed through management's constant monitoring of the status of the credit-worthiness of its customers.
The company also obtains guarantees from its customers for purposes of risk management.

		2005 Sh'000	2004 Sh'000
30	**CONTINGENT LIABILITIES**		
	Pending law suits	1,147,043	230,333
	Tax assessment	135,493	142,675
		1,282,536	373,008

30 CONTINGENT LIABILITIES (Continued)

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 June 30, 2005, the company received an assessment from Kenya Revenue Authority relating to VAT and PAYE of Sh135,493,000. The Company has since objected to this assessment and, in the opinion of the directors, no liability is likely to crystallise.

The pending law suits balance of Sh1,147 million includes a claim for Sh861million for recovery of the loss of discounts. EAPCC has counterclaimed against the plaintiff for the sum of Sh442 million as the amount wrongfully paid to and received by the plaintiff under the said purported contract.

31 CAPITAL COMMITMENTS

	2005 Sh'000	2004 Sh'000
Authorised by the directors but not contracted for	479,915	300,000
Authorised by the directors and contracted for	746,177	237,000

32 RELATED PARTY TRANSACTIONS

	2005 Sh'000	2004 Sh'000
Sales of clinker to Bamburi Cement Limited.	7,065	-

These balances were fully paid by year end. Bamburi Cement Limited owns 12.5% of the shareholding in East African Portland Cement Company Limited. Sales to related parties are on terms similar to those applicable to other customers.

33 OPERATING LEASE RENTALS

Outstanding commitments under operating leases due:

	2005 Sh'000	2004 Sh'000
Not later than one year	2,163	4,758
Later than one year but not later than two years	2,163	4,758
	4,326	9,516

34 COUNTRY OF INCORPORATION

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

35 CURRENCY

These financial statements are presented in Kenya shilling thousands (Sh '000).

NOTES

PROXY FORM

I/WE ____

OF ____

Being a member(s) of the above company, hereby appoint:

____

OF ____

Whom failing ____

OF ____

or failing him, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on behalf at the 73rd Annual General Meeting of The East African Portland Cement Company Limited to be held at Athi River on Friday, December 2, 2005 at 12:00 noon and at any adjournment thereof.

As witness my/our hand(s) this ____________ day of ______________ 2005

Signed ____________________

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company
2. In the case of a member being a limited company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. **This proxy must be deposited at the Registered Office of the Company, Namanga Road, Athi River, off Mombasa Road, P.O. Box 40101, 00100 Nairobi not less than 48 hours before the time of holding the meeting.**

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