



East African Portland
Cement Co. Ltd

Holding Life Together

ANNUAL REPORT AND
FINANCIAL STATEMENTS
2009/2010



VISION

To be the Regional Leader in the Provision of Cement, Innovative Cement Products and Solutions

MISSION

To provide Cement for Infrastructural solutions to the satisfaction of our stakeholders

VALUES

TEAMWORK:

We promote respect, unity and commonness of purpose amongst staff
We also promote and encourage exchange of ideas and openness

INTEGRITY:

We embrace a culture that promotes honesty, transparency, accountability and professional ethics

CUSTOMER FOCUS:

We are dedicated to meeting customer expectations

TIMELINESS:

We promote timely delivery of high quality products

INNOVATIVENESS:

We encourage creativity, embrace positive change and reward innovation

COMMITMENT:

We ensure peak performance, enthusiasm and excitement for work

SAFETY:

We ensure that we operate in a healthy and safe environment conducive to efficient productivity

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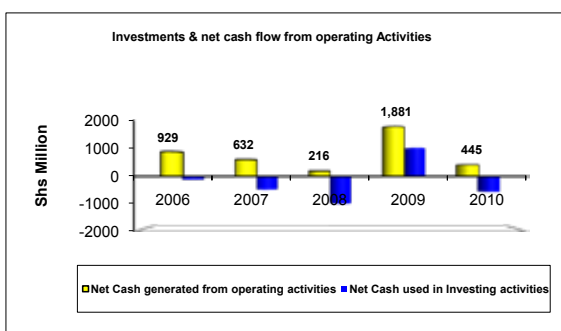
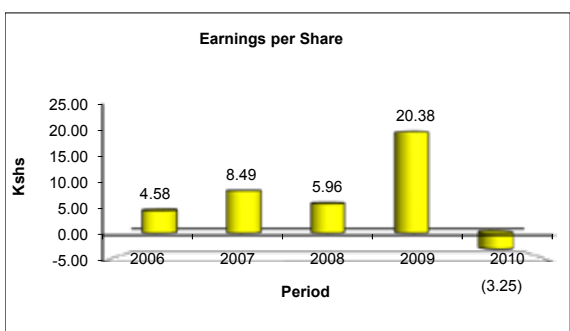
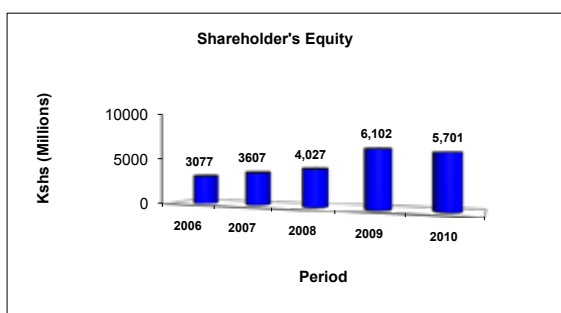
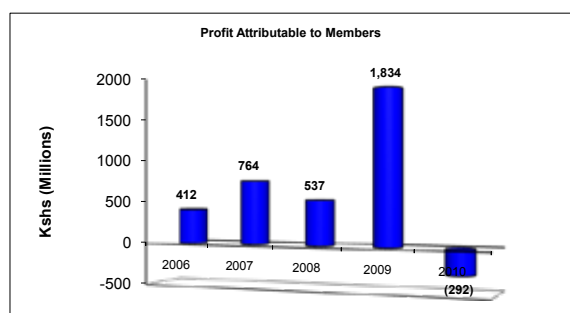
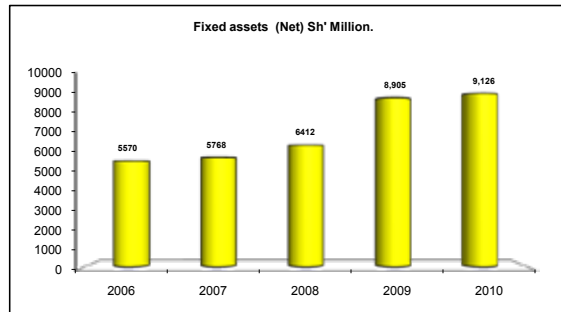
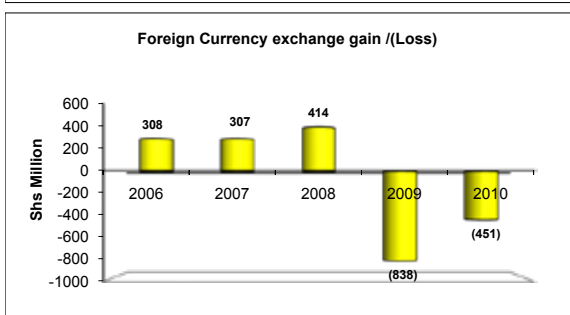
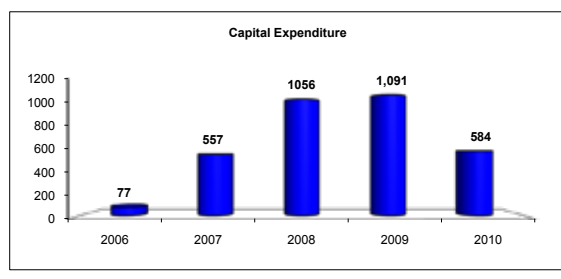
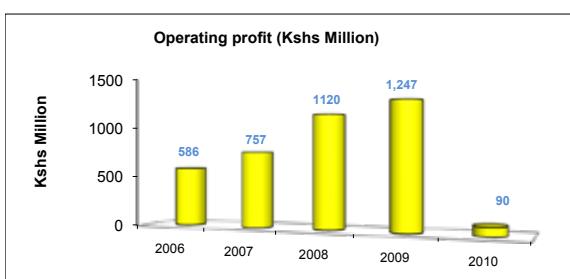
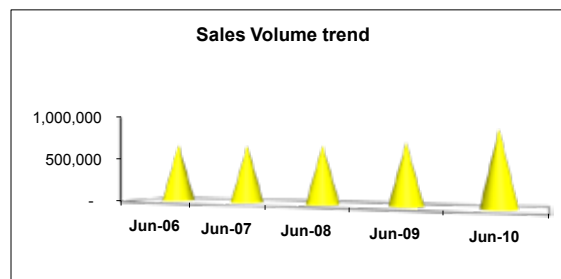
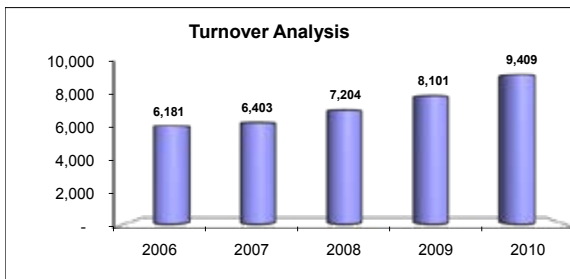
FIVE YEAR FINANCIAL REVIEW

| | 2010 Shs'000 | 2009 Shs'000 | 2008 Shs'000 | 2007 Shs'000 | 2006 Shs'000 |
|--|-------------------|-------------------|------------------|------------------|------------------|
| Turnover | 9,408,711 | 8,101,377 | 7,204,479 | 6,402,736 | 6,180,715 |
| Operating profit | 90,015 | 1,247,045 | 1,120,355 | 757,337 | 586,294 |
| Foreign currency exchange Gain/ (Loss) | (451,176) | (837,522) | (414,451) | 307,311 | 308,242 |
| (Loss) /Profit before tax | (338,571) | 1,881,678 | 715,889 | 1,112,625 | 924,364 |
| Taxation credit / (Charge) | 46,169 | (47,624) | (179,237) | (348,461) | (512,571) |
| (Loss) /Profit Attributable to Members | (292,402) | 1,834,054 | 536,652 | 764,164 | 411,793 |
| Dividends | - | 117,000 | - | 234,000 | 234,000 |
| Capital Employed | | | | | |
| Assets | | | | | |
| Non current | 9,125,885 | 8,904,918 | 6,411,608 | 5,768,197 | 5,570,488 |
| Current | 2,911,680 | 3,131,045 | 2,661,737 | 3,170,375 | 3,481,719 |
| Total assets | 12,037,565 | 12,035,963 | 9,073,345 | 8,938,572 | 9,052,207 |
| Equity & Liabilities | | | | | |
| Share holders funds | 5,701,201 | 6,102,252 | 4,026,749 | 3,607,097 | 3,076,933 |
| Non current liabilities | 4,499,714 | 4,421,319 | 3,870,221 | 3,896,220 | 4,577,333 |
| Current liabilities | 1,836,650 | 1,512,392 | 1,176,375 | 1,435,255 | 1,397,941 |
| Total Equity & Liabilities | 12,037,565 | 12,035,963 | 9,073,345 | 8,938,572 | 9,052,207 |
| <i>Ratio Analysis</i> | | | | | |
| <i>Profitability and Efficiency Ratios</i> | | | | | |
| Gross profit margin | 22% | 31% | 33% | 27% | 28% |
| Operating profit margin | 1% | 15% | 16% | 12% | 9% |
| Net profit margin | -3% | 23% | 7% | 12% | 7% |
| Return on assets | -2% | 15% | 6% | 9% | 5% |
| Return on Equity | -5% | 30% | 13% | 21% | 13% |
| Liquidity Ratios /Working capital | | | | | |
| Current ratio | 1.6 | 2.1 | 2.3 | 2.2 | 2.5 |
| Quick ratio | 1.2 | 1.6 | 1.4 | 1.8 | 2.1 |
| Earnings per Share | (3.25) | 20.38 | 5.96 | 8.49 | 4.58 |
| Dividends per share (Kshs) | | | | | |
| Interim Paid | | - | - | 1.30 | 1.30 |
| Final & proposed | | 1.30 | - | 1.30 | 1.30 |
| Total | - | 1.30 | - | 2.60 | 2.60 |

**FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 2010**

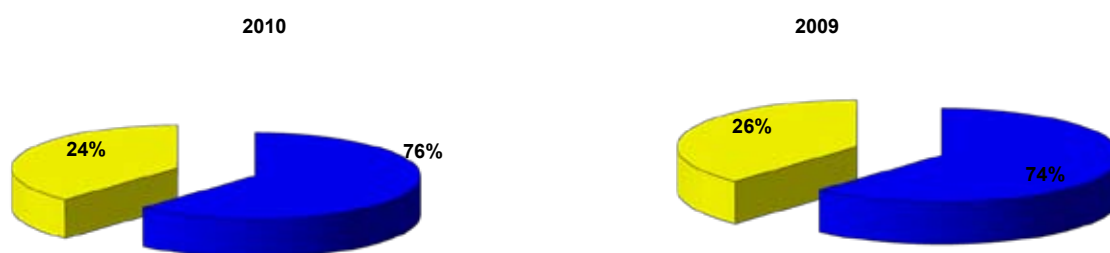
| | 2010 Sh'000 | 2009 Sh'000 |
|---|----------------|----------------|
| Revenue | 9,408,711 | 8,101,377 |
| (Loss) /Profit before tax | (338,571) | 1,881,678 |
| (Loss)/Profit attributable to the shareholders of the East African Portland Cement Company Limited | (292,402) | 1,834,054 |
| Dividends | - | 117,000 |
| Share Capital and Shareholders' funds | | |
| Ordinary Share Capital | 450,000 | 450,000 |
| Shareholders fund | 5,701,201 | 6,102,252 |
| Earnings and Dividend per share | | |
| Earnings per share | (3.25) | 20.38 |
| Dividend Per Share Final & proposed | - | 1.30 |
| Total | - | 1.30 |

FINANCIAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

DISTRIBUTION OF ASSETS



| | 2010 Kshs m | 2009 Kshs m |
|--------------------|----------------|----------------|
| Non current Assets | 9,126 | 8,904 |
| Current Assets | 2,912 | 3,131 |
| | 12,038 | 12,035 |

DISTRIBUTION OF EQUITY AND LIABILITIES



| | 2010 Kshs m | 2009 Kshs m |
|-------------------------|----------------|----------------|
| Shareholders funds | 5,701 | 6,102 |
| Non current liabilities | 4,500 | 4,421 |
| Current liabilities | 1,837 | 1,512 |
| | 12,038 | 12,035 |

Chairman's Statement



Mark K ole Karbolo
CHAIRMAN

'On the domestic scene, there is massive infrastructural development involving a wide range of sectors such as roads, ports, industrial premises and even general housing for human settlement. The home lending by banks has also increased. These trends will definitely call for increased cement production'

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to welcome you to the 78th Annual General Meeting of the East African Portland Cement Company Limited and to present to you the Annual Report and Financial Statements for the year to 30 June, 2010.

I wish to thank you all for your continued interest and support and express my gratitude to the many new shareholders who decided to invest in our Company during the past year.

Kenyan Economy

The growth in the Kenyan Economy by 2.6% in 2009 was a result of growth stimulus measures involving restoration of investor confidence, expansionary fiscal policy and monetary policy which focused on achieving and maintaining price stability.

The manufacturing sector grew by 2.0% in 2009, compared to 3.6% in 2008. The Building and Construction sector registered a remarkable growth of 14.1% in 2009, compared to 8.2% in 2008. The growth in the sector was reflected in cement consumption, which grew by 21.1% in 2009, mainly due to increased government expenditure in infrastructure construction, rehabilitation activities and Constituency Development Fund (CDF) projects. In year 2010, the economy is likely to benefit from

- Expanded market due to implementation of the EAC Common Market protocol of June 2010
- Stable macroeconomic environment
- Improved weather conditions
- Anticipated global economic recovery leading to increased demand for Kenya exports and increase in number of tourists

Cement Sector

The global financial crisis which was at its peak last year played a big part in reducing cement demand in Asia and the Far East and cement producers in this region are consequently looking for new markets to offload their excess output. The reduced demand in key exporting markets has increased dumping in local markets.

Under the EAC Customs Union Protocol 2005, cement was considered a sensitive product and the CET was set at 55 per cent, gradually reducing by 5 per cent every year, capping it at 35 per cent. Based on this policy, the industry mobilized investments.

The East African cement industry at large is becoming increasingly competitive on capacity expansions by existing players, the entry of Chinese and Indian cement companies as well as imports, which will pressure top line growth and profitability.

However, as you are aware, the Common External Tariff (CET) on imported cement was reduced in 2008 from 40% to 25% by the East African Community member states due to challenges that were caused by mechanical breakdowns in two cement factories in Kenya. Because of this measure, the local cement industries in the EAC region are facing stiff challenges from subsidized and dumped imports mainly from Pakistan, Turkey and China. Lobbying by sector players has been intensified for higher Duty, especially following Pakistan's decision to offer inland transport subsidies to its exporters.

Cement consumption per capita in the East African region is still low (69kg in Kenya, 56kg in Tanzania and 41kg in Uganda).

On the domestic scene, there is massive infrastructural development involving a wide range of sectors such as roads, ports, industrial premises and even general housing for human settlement. The home lending by banks has also increased. These trends will definitely call for increased cement production. Kenya has thus recorded significant growth in infrastructure-led consumption. Since most of the capacity additions are grinding capacities, the country will continue to import clinker.

Performance

East African Portland Cement Company Ltd experienced many challenges and opportunities over the past year. The Economic climate affected our business in several major ways as did new entrants and cement imports into the country. Raw materials, fuel oil and electricity costs went up. However, EAPCC responded by becoming a more flexible and responsive organization. Our aim is to keep costs down through innovation and cost containment initiatives.

Despite the challenges the period saw the Company improve its top line growth while continuing to invest in our staff, technology as well as contribution to the numerous entities in the communities we operate in.

Due to stiff competition, the Company's net comprehensive revenue increased by 16% to KSh9.4 billion from KSh8.1 billion the previous year. Although profitability was affected by increased cost of energy, raw materials and maintenance, there was an improved value chain in distribution costs which substantially reduced by 35%, compared with the previous year. Going forward we will focus our energies on minimizing our production costs, improving operational efficiencies, streamlining our procurement processes and implementing a wide range of costs containment measures. Our Internal Audit will continue to provide the independent oversight on the effectiveness of processes and levels of compliance.

To build a sustainable basis for future operations for the Company, substantial capital commitments were undertaken and others will be initiated to address energy costs, efficiency, waste and increase capacity utilisation. I am confident that these initiatives will translate into suitable value for you in the foreseeable future.

Dividends

Our overall cash position at the end of June 2010 was KSh952 million from KSh1.5 billion in the prior year. In line with our corporate strategy, the Board does not recommend the payment of a dividend. The focus of the Board and Management is to use internally generated funds to finance the contracted and planned heavy capital commitments to enable the Company to gain market share and competitive edge.

Market Capitalization

Our market capitalization increased by 53% to KSh10.35 billion in June 2010, from KSh6.75 billion in June 2009.

CHAIRMAN'S STATEMENT (continued)**Price of Cement**

Due to inflationary pressures and economic challenges, consumers have become more price conscious. Pricing has emerged as a weapon for a market share in the cement sector. Increased cement stocks in the market due to fresh capacity from the new entrants and production enhancements by existing players have set the stage for price wars, giving rise to eroded market share for every cement player. As EAPCC we will aggressively focus on value addition activities to grow and restructure our business model in our regional market frontiers. In this regard, the Board converted the branch in Uganda into a wholly owned subsidiary company now registered in Uganda. We will also continue to focus on a strong cash management position and diversification of our revenue base in line with our Vision and Mission.

Taxation

As a good corporate citizen, EAPCC is committed to paying taxes promptly as required by law. During the year under review, the Company paid in excess of KSh1.57 billion in both direct and indirect taxes to the Exchequer.

Safety, Health and Environment

Safety is a priority for EAPCC and the year saw a great improvement in performance as measured by incidence occurrences. We engaged training across the business sensitizing staff to safety measures and practices within EAPCC in a drive which was also extended to our customers, suppliers and contractors who have embraced our safety policies.

The Company decided to adopt a strategy (OHSAS 18001:2007) in November 2008 to prevent accidents and ill-health in the workplace. The OHSAS 18001:2007 is an international standard covering the Occupational Health and Safety (OH&S) management system which provides organizations with the elements of an effective OH&S system that can be integrated with other management requirements and help organizations to achieve OH&S and economic benefits. During the second quarter of the coming year, we will attain certification from the Kenya Bureau of Standards (KEBS).

The Company has thus embarked on a more proactive approach in addressing Safety, Health and Environment throughout its operations with the aim of managing projects to ensure compliance with the Environmental Management Coordination Act of 1999. Regular safety, health and environmental audits and training are carried out.

HIV/Aids

We are committed to undertaking programmes and activities that shall create awareness amongst staff and community, to embrace positive behaviour change so as to reduce the negative impact of the HIV pandemic on our society. We have strengthened the Peer Educators team so that we can roll out our HIV/AIDs initiatives to our key third party suppliers and contractors.

Corporate Social Responsibility

EAPCC recognizes the fact that good corporate citizenship is

not only putting in place sound business strategies, making impressive profits, paying good salaries and making tax returns. It is about creating partnership with the community and ensuring both parties benefit from the co-operation.

We therefore have put in place a comprehensive Corporate Social Responsibility programme through which we share our gains with communities that make operations possible by being good neighbors and customers. By devoting more resources annually to CSR, we powerfully demonstrate our commitment to building a strong partnership with local communities. Our social agenda is evident in our involvement in projects, such as education, sports, water, famine relief and environmental conservation.

Corporate Governance

The Company continues to believe in the importance of good governance and sees it as an imperative to our business at all levels. The Board has in place a charter. The code of business reflects the emphasis that each employee needs to fully understand corporate behavior expectations, compliance with work ethics and regulatory expectations. We will continue to identity with and share best practice across the entire company structure.

Organizational Effectiveness and Efficiency

We do not envision drastic reorganization in the coming year, but we will continue to improve on our efficiency within the business so that overheads are kept under control whilst good governance and compliance will remain uncompromised. We also envision a faster and better approach to doing business to drive execution and speed to market.

In regard to the planned government divestiture from EAPCC Ltd, the Board of Directors wishes to assure all shareholders and other stakeholders including staff that our Company's status quo remains intact until the planned divestiture process is determined by the Government of Kenya.

Energy

Energy costs in East Africa account for up to 50% of total production costs while in countries like Egypt, India and China production costs are inherently lower since key inputs like power and fuel for industries are subsidized by governments. This makes the region a lucrative market for imports.

The coal milling facility (a coal grinding and dosing facility) which commenced in the prior year will be commissioned in October 2010 and will help meet the energy needs of an expanded capacity. The plan is to cut back on fuel oil use and electricity as our main sources of energy. By switching to coal we expect to reduce the energy cost by at least 30%, which will enable the Company to achieve a more sustained profitable path.

Yen-denominated Loan

The Japanese loan was obtained to help EAPCC become competitive in the market, and to facilitate the production of affordable cement to the population of Kenya. EAPCC is obliged to manufacture affordable cement for the Kenyan people so as to be

CHAIRMAN'S STATEMENT (continued)

part of the nation building process. With such a social responsibility, EAPCC is therefore unable to increase the prices of cement and simultaneously keep up with the exchange rate movements of the Japanese Yen against the Kenya Shilling.

So far the Company has paid more in principal and interest payments than the original loan amount, yet is still a long way to go in paying off the outstanding balance. Additionally, because the semi-annual payments are denominated in Japanese Yen, the balance is determined by the prevailing exchange rate at the time, which EAPCC has no control over.

Whenever the Kenya Shilling weakens against the Japanese Yen, the situation creates uncertainty due to the foreign exchange exposure. Our cash inflows are denominated in shillings because the majority of company sales are received in the Kenya Shilling while the Company has the Yen-denominated loan or liability repaid in Yens, which creates an Asset/Liability mismatch. This scenario has led to realized losses on principal and interest payments on the Company balance sheet and cash flows and unrealized losses/gains on the profit and loss account and impaired the Company's reserves. EAPCC being a limited company, it is imperative that management and the Board are in a position to predict what the operating results would be for a particular period for advice to the shareholders. In the current structure it would be almost impossible to predetermine what the exposure would be and the same affects the level of profitability of the Company, hence the dividend payout capacity.

EAPCC performance has improved over the years after putting in place a remarkable turnaround. The only risk to the performance of this Company is the exposure on the Yen-denominated JBIC loan as highlighted in the Performance Contract entered by the Board with the Government of Kenya. The Board and management have always desired to manage this risk faced by the Company in order to secure its future.

The Board has decided to address this problem in the coming year. Options such as cross-currency swaps and hedging are underway to mitigate the Asset/Liability mismatch and adverse foreign exchange exposure.

Outlook

We continue to believe that the building sector offers long-term prospects, underpinned by the significant infrastructure deficit and housing shortfall, as evidenced by the low per capita.

We will closely monitor the changing regulatory frameworks in the regional trading blocs and the imminent threat of cement imports from subsidized sources. We also anticipate that the Government will intervene to address business challenges of energy and transport infrastructure and other economic and social challenges. The looming La Nina phenomenon is expected to affect food security and agricultural products of 1st Quarter 2011.

As a company we are prepared to deliver value to our shareholders and other stakeholders.

The Board

The Board remained largely unchanged, with the exception of Prof. John Krop Lonyangapuo who retired. I extend our appreciation and thanks for his contribution and at the same time welcome on the Board his replacement, Dr. Eng Karanja Kibicho (PS, Ministry of Industrialization).

Appreciation

I would like to record my sincere gratitude to you shareholders for the support you have continued to provide to your Company. I would also like to recognize the contribution of the Board for their vision, dedication to the Company and unity of purpose.

I also congratulate the entire management and staff of East African Portland Cement Company Ltd for their commitment and hard work that has successfully positioned us for the challenges and opportunities that lie ahead. I urge you to redouble your efforts.

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

Mark K ole Karbolo
Chairman

5 October 2010

Ag. Managing Director's Business Review



'As a Company, the practice of ethical behaviour will continue to be upheld at all times. Good behaviour shapes individual character and reflects on the reputation of the Company. In this regard, staff have committed to embracing a culture of timeliness, innovativeness, customer focus, teamwork, integrity and commitment as a way of life. These core values are regarded as vital to the Company's Vision and Mission'

Kephah L Tande
Ag. MANAGING DIRECTOR

Ag. MANAGING DIRECTOR BUSINESS REVIEW

FINANCIAL PERFORMANCE 2009/2010

Performance

Following the commissioning of the new cement mill, the Company increased its capacity and improved revenue for the year ended 30th June 2010 by 16% over the prior year period.

However, the cost of sales went up by 33%, mainly due to the increase in the cost of energy, raw materials and maintenance. Distribution costs substantially reduced by 35% compared with the previous year due to measures put in place to contain selling costs.

The Company implemented an early retirement and restructuring plan at a cost of Sh200 million.

The Kenya Shilling continued to depreciate against the Yen, which resulted in an exchange loss of Sh451 million compared to a loss of Sh837 million last year. Although the Company made an operating profit of Shs90 million, Net loss of Shs292 million was recorded due to the Exchange loss.

Balance Sheet

The increase in fixed assets by Sh619 million was due to the additional ongoing coal grinding plant and installation during the year, which will be commissioned in October 2010.

Cash Flow

The Company has positioned itself to fast-track the key investments to meet energy and efficiency challenges. The cash position at the end of the financial year under review therefore reduced substantially by 37% compared to the previous year.

Corporate Strategy

Demand for cement has been increasing in Kenya and the East African region. This trend is likely to be sustained for a long time owing to the ongoing reconstruction of the neighbouring countries of Southern Sudan, Rwanda and Burundi, who are emerging from years of civil strife and ethnic conflict. There are also the promising markets of Western Uganda, Ethiopia and even Somalia.

In response to fierce competition, the Company is seeking to achieve business turnaround through implementation of its Paradigm Shift Initiative. The Company is also seeking to create a demand-, rather than supply-driven, business model, including regional markets in pursuance of sales in Burundi, Sudan, Uganda and DRC. There is an aggressive promotion of the Blue Triangle Brand. The Sales and Marketing function of the Company was also moved to Nairobi in this respect.

Our Core Value System

As a Company, the practice of ethical behaviour will continue to be upheld at all times. Good behaviour shapes individual character and reflects on the reputation of the Company. In this regard, staff have committed to embracing a culture of timeliness, innovativeness, customer focus, teamwork, integrity and commitment as a way of life. These core values are regarded as vital to the Company's Vision and Mission. To this end, the Company implemented the Behavioural and Cultural Change Programme involving all employees, management and the Board of Directors. The programme was identified as a key driver of the Paradigm Shift initiative.

Quality Management Processes

The benefits of ISO certification (ISO 9001:2008 series) in June 2009 have continued to be realized. The Company is now poised to achieve certification for OHSAS (Occupational Health and Safety). Plans

are under way to extend certification to areas of the environment management and to collaborate closely with the relevant authorities toward achieving cleaner production.

New Integrated System

During the period under review, the Company commenced implementation of a new integrated business system (ERP) project named Unifying Portland Online (UPO). This system is intended to enhance internal efficiencies in Technical, Commercial and Key service departments of the Company with the aim of improved productivity, profitability and growth. The system will go live on 1 December 2010.

Risk Management

The Company's operations and earnings are subject to various risks relating to the changing competitive, economic, political, legal, social, industry, business and financial conditions. These factors expose the Company to a variety of financial risks, and the effects of changes in debts and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance as follows:

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

We also take a risk-based approach to internal control. The management team is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable, but not absolute, assurance of achieving business objectives. Related requirements are set out in the Corporate Risk Management Manual, which describes the methodology to be followed to manage risks to objectives. Our control framework is supported by a set of risk-based standards; these establish rules and instructions on enterprise-wide risks that require common treatment.

We have a variety of processes for obtaining assurance on the adequacy of risk management and internal control, including:

- A structured process to identify and review risks for the achievement of corporate objectives
- A risk-based audit of the Company's operations and systems
- A business control incident reporting and provisioning process
- An ethics and compliance programme

The established mechanisms allow the Board, via its Audit Committee, to regularly consider the overall effectiveness of the internal control system and to perform a full annual review.

The Company also has in place a Risk Management Committee which is chaired by the Managing Director.

Terms of reference are as detailed below.

- I. Setting Enterprise Risk Management policies and priorities.
- II. Reviewing all financial risk and mitigation measures, including proposals on hedging and approving specific hedge proposals.
- III. Reviewing risk associated with external financing

Ag. MANAGING DIRECTOR BUSINESS REVIEW (continued)

- proposals and approving the same for onward transmission to the Board of Directors.
- IV. Reviewing the status of carbon trading agreements to determine their proposed financial flows and approve the associated risk mitigation measures.
 - V. Reviewing the status of all insurable risk and the adequacy or otherwise of the covers taken.
 - VI. Reviewing all legal risks, exposures and approval of risk mitigation measures thereon.
 - VII. Reviewing operating risks within the production, distribution and procurement system and approving risk mitigation measures thereon.
 - VIII. Reviewing business continuity risks and approving the measures taken to protect the Company.

Future Outlook

Market demand for cement remains strong and the Company expects improved production and sales volume in the coming year.

The coal firing facility, which will be commissioned before the end of this financial year. From this investment, the Company expects to make significant savings in its energy costs.

To guard against the persistent negative bottom line impact of the Yen loan, the Company is at an advanced stage of coming up with a solution to be implemented in the second half of this financial year.

The Kiln upgrade will be commenced next year, with the objective of increasing clinker manufacture. This will help mitigate cement production cost by reducing imported clinker and instead increase use of own-produced clinker.

Corporate Social Investment

EAPCC has continued to touch the lives and hearts of many in our immediate community in line with our corporate philosophy of "Holding Life Together". Through various implemented projects we believe in empowering the local communities with the desire to make the projects self-sustaining.

Our Priorities in 2010/11

- Improve productivity and optimal capacity utilization.
- Invest in technology, research and processes in order to support business growth.
- Cost containment initiatives, stringent waste management and innovation to help keep costs down.
- Aggressive risk management and value addition initiatives.
- Develop our talent and leadership capability.
- Achieve 100% Key Objectives as derived from the Strategic Plan 2010/2015 using the Balance Score Card Implementation tool.
- Employ service delivery innovations to improve customer service turnaround.

I would like to thank our customers, shareholders and other stakeholders for their support and our staff for their tremendous efforts during the year. I am very confident that we will deliver strong performance and build a long-term sustainable business in this country going forward.

Thank you

Kephar L. Tande
Ag. Managing Director

5 October 2010

Milestones EAPCC has covered in the last 76 years
1933 - 2009

| | |
|------|---|
| 1933 | East African Portland Cement registered; the first Company in the region to manufacture and trade solely in cement. At the time EAPCC produced 60,000 tonnes per year through Mill No. 2 |
| 1934 | Deliveries of cement begin |
| 1956 | Construction of cement plant starts in Athi River |
| 1957 | Athi River factory complete |
| 1958 | EAPCC doubled its production capacity after the completion of the Athi River factory and incorporation of Mills No. 1 and 3 This doubled production capacity to 120,000 tonnes per year |
| 1971 | Government of Kenya bought shares |
| 1973 | Listed in Nairobi Stock Exchange |
| 1974 | EAPCC commissioned the new rotary kiln (wet) which added to the production capacity and brought it to a total of 300,000 tonnes per year |
| 1979 | The Company undertook minor upgrades on Mill No. 3 and put up Raw Mill No. 4, which boosted production capacity to 340,000 tonnes per year |
| 1996 | A new kiln was commissioned which came complete with a new raw mill (vertical roller-Atox). A bigger limestone crusher and an ultra-modern raw material pre-blending system which brought production to 600,000 tonnes per year |
| 1997 | Company changes the process from wet process to dry process |
| 2007 | Ground-breaking for new cement mill to boost production capacity from 600,000 metric tonnes to about 1.3 million metric tonnes |
| 2008 | EAPCC commissions the new cement mill (Cement Mill No.5), which actively doubles cement production capacity to about 1.3 million metric tonnes per annum EAPCC signs the Emission Reduction Purchase Agreement (ERPA) with JP Morgan Climate Care for the sale of Carbon Credits |
| 2009 | EAPCC receives prestigious ISO 9001:2008 certification for its intergration of Quality Management Systems |

CSR

CORPORATE SOCIAL RESPONSIBILITY



Corporate Social Responsibilities (CSR)

“Through free medical camps, the Company contributes greatly to bridging the gap between the haves and the have-nots”

The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, stakeholders, shareholders and the local community and society at large is what defines the East African Portland Cement Company's CSR initiatives.

EAPCC reviews various requests presented by the stakeholders and prudently allocates resources to meet those needs. Continuing in our corporate social awareness, EAPCC has supported many causes in communities and provided volunteer opportunities all over the country as follows:

Health

Everything in The Programme for Better Vision is based on a primary law about vision that governs the quality of your eyesight, an aspect that prompted one of our distributors, Mr. Divesh Kotecha, to organize an eye care clinic in Mumias through the sponsorship of the EAPCC. The eye care clinic was hosted free of charge by Mumias Sugar Company at their sports complex. The event was carried out by Lions International through the Lions Club of Kakamega in conjunction with Sabatia Hospital.

Services offered included:

- Eye check-up
- Provision of eye drops
- Provision of reading glasses
- Eye surgery

EAPCC donated a cheque worth KSh545,000. Patients got medication free while those that required reading glasses got them at KSh150 per pair, a price that was favourable for all those that needed them. Those that required eye surgery were ferried to Sabatia Hospital for further treatment. In a bid for better healthcare, EAPCC has effective HIV and drug and substance abuse prevention programmes. These programmes generated positive behaviour from the community and staff towards the epidemic. To achieve this objective the Company conducted the following activities.



Corporate Social Responsibilities (continued)

- We conducted two workshops during the year to create awareness about the dangers of drug abuse.
- Formed two peer groups (one for youths and the other one for the middle-aged)
- Counselling and training from NACADA and other entities
- We have rehabilitation centres for our employees and dependants
- Voluntary Counselling and Testing
- Enlightening the community on Living Positively
- Stopping stigma among us
- Adherence to ARVs
- Drugs and substance abuse among the youth
- Gender and Disability sensitization seminar for EAPCC staff conducted by the National Centre for Persons with Disabilities

EAPCC's contribution to healthcare in the country has included organizing free medical camps in parts of the country; the most recent one having been organized Central Province. Through free medical camps, the Company contributes greatly to bridging the gap between the haves and the have-nots. The main objective of the camp was to raise awareness on and treat various conditions prevalent in the area, to provide medical assistance to the less fortunate in our society, to educate the public on various medical and social issues affecting their community and to encourage other organizations to get more actively involved in CSR.

Services offered at the Central Kenya camp included first aid and treatment of common ailments such as respiratory tract infections, gastro-intestinal diseases, muscular-skeletal diseases and hypertension. Counselling on family planning and HIV/AIDS were also other services offered at the medical camp. Cases that needed further attention were referred to the Nyeri Provincial Hospital.

Safety and Environment

Disaster occurrence is becoming more complex as we advance in development. The frequency of disaster occurrence has gone up, the nature of disasters has become varied and the intensity of disasters has become profound. Disaster preparedness measures are in place throughout the Company.

Education

EAPCC has long focused in establishing projects that will help the surrounding community to achieve educational opportunities. Before EAPCC's intervention Standard One pupils at a primary school in Sultan Hamud were learning under a tree. However, they received a 40- seater fully-furnished classroom thanks to the Company

EAPCC spent over KSh12 million in the development of educational projects (classroom, dining hall and twin dormitory, all fully fitted) and officially handed them over to the Maasai community.

Sports Sponsorships

EAPCC was among the many sponsors of the Jaramogi Oginga Odinga Foundation, a philanthropic, social-welfare-driven NGO. The Company donated KSh50,000 towards the sports events which comprised a half- marathon, soccer, *boda boda* race and a golf tourney.

EAPCC also provides sponsorships to volleyball and the Kenya Motorsports Foundation, who use our quarry grounds for practice and the Quattro Charge as do prospective Kenya Safari Rally entrants.

A working nation is also a sporting nation. In appreciation of this fact, EAPCC felt that it was time for us to create a strong, durable and bright partnership with a winning outfit in Kenyan soccer and we now sponsor Sofapaka Football Club FC to the tune of KSh12 million. Sofapaka sport the Blue Triangle® colours.



Board of Directors



| | | |
|---|---|---|
| 1 | 2 | 3 |
| 4 | 5 | 6 |
| 7 | 8 | 9 |

1. Mark K ole Karbolo (*Chairman*)
2. Kephah L Tande (*Ag. Managing Director*)
3. Dr. Eng. Karanja Kibicho (*Director*)
4. J.K. Kinyua (*Director*)
5. Dr. T Naikuni (*Director*)
6. Alex Kazongo (*Director*)
7. David Koros (*Director*)
8. KHW Keith (*Director*)
9. JLG Maonga (*Company Secretary*)

Management Executive Team



| | | |
|---|---|---|
| | 1 | |
| 2 | 3 | 4 |
| 5 | 6 | 7 |

1. Kephah L. Tande (Ag. Managing Director)
2. Kananga M'nchebere (Head of Production)
3. Alex Mutisya (Head of Sales and Marketing)
4. Rosemary K. Gituma (Ag. Head of Financial Management)
5. Peter Korir (Head of Strategy & Technology Development)
6. Stephen Kamau (Head of Human Resources)
7. Stephen Nthei (Head of Internal Audit and Risk Management)

STATEMENT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2010

Corporate governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The Board of East African Portland Cement Company Limited is committed to upholding high standards of corporate governance.

The Board

Composition of the Board is set out on page

The Board is made up of the chairman, Managing Director and five independent non-executive directors. All non executive directors are independent of management. All directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering the company's business and operations. The directors are advised of the legal, regulatory and other obligations of a director of a listed company. All of the directors have access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The directors responsibilities are set out in the statement of Directors responsibilities on page 26.

The full Board meets regularly, at least four times a year, and has a formal schedule of matters reserved for it. The directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

Except for direction and guidance on general policy, the Board has delegated authority for the conduct of day to day business to the Managing Director and the Management Committee. The Board however retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues as well as monitoring the performance of the executive management. The roles of the Chairman and the Managing Director are clearly delineated and have been approved by the Board.

The Board members have a wide range of skills and experience and each brings an independent judgment and considerable knowledge to the Board discussions. The Board recognizes that at the core of the corporate governance system, it is ultimately accountable and responsible for the performance and affairs of the company. Towards this end the directors in fulfillment of their fiduciary duty act always in the best interest of the company and shareholders. The Board understands the significance of corporate governance and continuously strives to provide competitive strategic leadership. The Board also works through the various sub committees – Board Audit Committee, Board Technical Committee, Board Human Resources and Remuneration Committee and Tender and Procurement oversight committee. The Committees have freedom to co-opt expert assistance as necessary. The Board conducts a Board evaluation annually to determine its strengths and effectiveness as a Board, as well as the effectiveness of individual directors.

The following table shows the number of Board meetings held during the year and the attendance of individual directors.

| Director | Board [Scheduled] | Board Special | 77TH AGM |
|-------------------------------------|----------------------|------------------|-------------|
| | 5 | 1 | 1 |
| Chairman | 5 | 1 | 1 |
| Managing Director | 5 | 1 | 1 |
| Ps Treasury | 3 | - | 1 |
| Ps Ministry of Industrialization | 4 | - | - |
| NSSF | 4 | - | 1 |
| Dr. T Naikuni | 4 | - | - |
| K H W Keith | 3 | - | - |
| D Koros | 5 | 1 | 1 |
| J L G Maonga | 5 | 1 | 1 |

Experts and business representatives are invited on a need – basis.

During the year six meetings were held and one Annual General Meeting.

The Board is of the opinion that there is a balance between independent executive and non-executive directors as required by clause 2.1.4 of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya.

Delegation of Authority

Board Sub Committees

The Board has three Sub Committees with specific delegated authorities. These are Board Audit Committee, Board Technical, Board Human Resources and Remuneration Committee, and Board Tender and Procurement oversight while Management has Executive Management, Tender and Procurement and Risk Management Committees.

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

Details of these committees and membership are shown below.

Board Audit Committee

The Committee meets at least four times a year and held five meetings during the year.

Role

The Committee receives reports on the findings of the internal and external audits and on action taken in response to these. In addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control. The external auditors have unrestricted access to the Managing Director and Chairman of Audit Committee which ensures that their independence is in no way impaired.

**STATEMENT OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2010 (continued)**

Other responsibilities of the Committees are:

- To nominate external auditors for appointment by shareholders.
- To review the financial reports.
- To oversee management of all risks of the company including Financial risk, credit risk, liquidity risk, reputation risk, legal risk, regulatory and compliance risk.
- The committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing the risks.

The members of the Committee are:

| | |
|--|-----------|
| Mr. A Kazongo (representing NSSF) | Chairman |
| Dr. T Naikuni | |
| P S Treasury | |
| K H W Keith | |
| D Koros | |
| J L G Maonga | Secretary |
| External Auditors | |
| Head of Financial Management | |
| Head of Internal Audit & Risk Management | |

***Experts and business representatives are invited on a need-basis.**

Board Technical Committee

The committee has four scheduled meetings each year. During the year five meetings were held.

Role

The Board has delegated authority to the Board Technical Committee to oversee the Company's capital expenditure plans, Marketing strategies, Technology and Research. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for all hardware and software purchases for recommendation to the Board.

The members of the committee are:

| | |
|-------------------------------|-----------------------|
| Dr. T Naikuni | Chairman |
| Permanent Secretary | |
| Ministry of Industrialization | |
| Permanent Secretary Treasury | |
| A Kazongo | Representing NSSF |
| Kephar L Tande | Ag. Managing Director |
| J L G Maonga | Secretary |

***Experts and business representatives are invited on a need-basis.**

Board Human Resources and Remuneration Committee

The committee has four scheduled meetings during the year. The committee 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 suitable candidates to fill senior management vacancies and the remuneration of non-executive directors.

During the year six meetings were held.

The Members of the Committee are

| | |
|-------------------------------|-------------------|
| Permanent Secretary | Chairman |
| Ministry Of Industrialization | |
| A Kazongo | Representing NSSF |
| Kephar L Tande | |
| K H W Keith | |
| D Koros | |
| J L G Maonga | Secretary |

Board Tender and Procurement oversight committee

Board Tender and Procurement oversight committee was constituted on 8 July 2010. Meetings to be held at least four times a year.

Role

- To consider and approve all the annual procurement plans prepared by Tender and Procurement Committee prior to submission to the Board.
- To receive and discuss all the quarterly procurement reports before they are submitted to the Board.
- To guide Tender and Procurement Committee as necessary.
- To deal with any other procurement issues that may arise from time to time.
- To ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

The members of the committee are:

| | |
|-------------------------------|-------------------|
| K H W Keith | Chairman |
| PS | |
| Ministry of Industrialization | |
| A Kazongo | Representing NSSF |
| Kephar L Tande | |
| J L G Maonga | |

Management Committee

The Management Committee is the link between the Board and management. The committee assists the Managing Director in giving overall direction to the business. The Committee is responsible for the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, proposals, identification and management of key risk and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The committee meets at least once a week.

Tender and Procurement Committee

The committee meets weekly or as required and its composition and responsibilities are as per the company's procurement policies, Public Procurement and Disposal ACT 2005 and the Public Procurement and Disposals Regulations, 2006. There is also a Disposal Committee responsible for the disposal of the company's significant non-operating assets.

Directors' remuneration and loans

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party, whereby directors might get benefits by means of acquisition of the company's shares. Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 32 of the financial statements

Board Performance Evaluation

Under the guidelines issued by the Ministry of Industrialization Board charter and CMA, the Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation is conducted quarterly and annually and the results of the evaluation are provided to the Ministry of Industrialization and office of the President on Performance contracting.

Going concern

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the

STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Internal controls

The Board has a collective responsibility for the establishment and maintenance of a system of internal control that provides reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board attaches great importance to maintaining a strong control environment and the company's system of internal controls includes the assessment of non financial risks and controls. The Board has reviewed the Company's internal control policies and procedures and is satisfied that appropriate procedures are in place.

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

All employees have a copy of this Code of Ethics and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. This forms part of a Company's compliance structure, which sets policies and standards for compliance with rules, regulations and legal requirements.

The Board will continue to play its role effectively under corporate governance structure. The non executive director will maintain oversight on management of the company through board meetings as well as various board committees.

Relations with shareholders

The Board recognizes the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report are used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM.

In upholding and protecting shareholders' rights, the Board recognizes that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also allows shareholders to seek clarity on the Company's performance in general meetings.

The Board has engaged the services of a professional Registrar to allow for quick responses to all shareholder queries and smooth transfer of shares.

Skills and experience of the Board

Our Directors have among other attributes the following skills and experience.

- Corporate governance
- Information and Communication Technology
- Diverse age profiles
- Cement industry experience
- Diverse and Complementary skills

Code of Conduct

The Board has approved a Code of Ethics, which sets out the Company's core values relating to the lawful and ethical conduct of business.

Appointment to the Board

All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment the Directors receive an induction covering the Company's business and operations of all areas particularly risk and audit functions. The Directors are advised of legal regulations and other obligations of directors of a listed Company.

Directors retire by rotation annually, and if eligible their names are submitted for re-election in the annual general meetings.

Also all director appointments are subject to confirmation by shareholders at the annual general meeting. In addition to the induction program for new directors there are specific training workshops that our directors participate that are accredited by the Center for Corporate Governance.

Succession Planning

The company has in place a robust succession plan fully documented which is updated regularly to include high performances.

Interaction with Management

The EAPCC Board has a high level of regular interaction with management thereby enabling directors to infuse their considerable experience, professional knowledge of the target market into the strategic direction. There is a policy of open communication between Board and Management and this ensures that the board is fully informed of major matters concerning EAPCC and its business. A procedure further allows for directors to suggest additional items for discussion at meetings and to call for additional information or a briefing on any topic prior to the meeting.

During the year 2009/2010, the membership of the Board Committees was reviewed in line with the requirements of the Board charter which provides that committee memberships and chairs be reviewed annually. The Board also in addition has an ad-hoc Committee that assists the Board in Legal Matters.

COMMUNICATION

The Board is satisfied that decision – making capability and the accuracy of its reporting and financial results are maintained at a high level at all times to ensure adequate disclosure and transparency. The Board relies on the external Group of Auditors and Audit Committee to raise any issues of financial concern.

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 emphasize environmental protection and stewardship and recognize 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 are committed to timely and meaningful dialogue with all of them.

**STATEMENT OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2010 (continued)****BOARD COMMITTEE MEMBERSHIP**

| Director | Classification | Designation | Audit Committee | Technical Committee | Human Resources and Remuneration Committee | Tender and Procurement oversight committee |
|----------------------------------|-----------------------------|---|-----------------|---------------------|--|--|
| PS Treasury | Non executive | | √ | √ | | |
| PS Ministry Of Industrialization | " | Chairman HRRC | | √ | √ | √ |
| NSSF | " | Chairman Audit Committee | √ | √ | √ | √ |
| Managing Director | Executive | | | √ | √ | √ |
| D Koros | Non Executive – Independent | | √ | | √ | |
| Dr. T Naikuni | " | Chairman Technical Committee | √ | √ | | |
| Mr. K H W Keith | " | Chairman Tender and Procurement oversight | √ | | | √ |

THE BOARD AND STATUTORY INFORMATION**Directors**

Mark K ole Karbolo

Chairman

Kephlar L Tande

Dr. Eng. Karanja Kibicho

J K Kinyua

National Social Security Fund

Dr. T Naikuni

D Koros

K H W Keith

Ag. Managing Director

(Alternate Eng. J Mosonik)

(Alternate – J Kinyanjui)

Represented by A Kazongo

Secretary

J L G Maonga

Certified Public Secretary (Kenya)

P.O. Box 30029 – 00100

NAIROBI**Auditors**

Controller and Auditor General

P.O. Box 30084 – 00100

NAIROBI**Registered Office**

L R 337/113/1

Namanga Road, off Mombasa Road

P.O. Box 20-00204

ATHI RIVER**Registrars and Transfer Office**

Haki Registrars

P.O. Box 40868 – 00100

NAIROBI**Bankers**

Kenya Commercial Bank Limited

Standard Chartered Bank Kenya Limited

Standard Chartered Bank Uganda Limited

The Co-operative Bank of Kenya Limited

Barclays Bank of Kenya Limited

CFC Stanbic Bank Kenya Limited

Citi Bank N.A. Kenya Branch

Board Sub Committees**Board Audit Committee**

A Kazongo

Dr. T Naikuni

Chairman

J K Kinyua

D Koros

K H W Keith

J L G Maonga

Secretary

Board Technical Committee

Dr. T Naikuni

J K Kinyua

Dr. Eng. Karanja Kibicho

A Kazongo

Kephlar L Tande

J L G Maonga

Chairman

Representing NSSF

Secretary

Board Human Resources and Remuneration Committee

Dr. Eng. Karanja Kibicho

A Kazongo

D Koros

Kephlar L Tande

J L G Maonga

Chairman

Representing NSSF

Secretary

Board Tender and Procurement oversight committee

K H W Keith

Dr. Eng. Karanja Kibicho

A Kazongo

Kephlar L Tande

J L G Maonga

Chairman

Representing NSSF

Secretary

Management Executive Team

Kephlar L Tande

Alex Mutisya

Kananga M N'chebere

Rosemary K Gituma

Stephen Kamau

Peter Korir

Ag. Managing Director

Head of Sales & Marketing

Head of Production

Ag. Head of Financial Management

Head of Human Resource Management

Head of Strategy & Technology
Development

Stephen Busienei

Stephen Nthei

Ag. Finance Manager

Head of Internal Audit &

Risk Management

Charles Kaloki

Salim Daghar

ICT Manager

Technical & Engineering

Projects Manager

Jack Chebett

Sales Manager

REPORT OF THE DIRECTORS

The Directors present their Report together with the audited financial statements of the Company for the year ended 30 June 2010.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS

The results for the year are set out on page 31.

3. DIVIDENDS

The Company did not pay a dividend during the year (2009 - nil).

4. DIRECTORS

The current Board of Directors is shown on page 18. The following changes have taken place since 1 July 2009:

- National Social Security Fund was appointed a Director of the Company on 19 November 2009 in place of Mr Alex Kazongo Mr Albert Otero ceased to be alternate Director to Mr Alex Kazongo on the same date.
- Dr. Eng. Karanja Kibicho (PS, Ministry of Industrialization) was appointed a Director on 17 June 2010 in place of Prof. John Krop Lonyangapuo.
- On 22 July 2010, Eng John Nyambok resigned as Managing Director and Mr Kephah L Tande was appointed acting Managing Director with effect from 23 July 2010.

5. AUDITORS

The Controller and Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 14 and Section 39(i) of the Public Audit Act, 2003, which empowers the Controller and Auditor General to nominate other auditors to carry out the audit on his behalf.

Ernst & Young were nominated by the Controller and Auditor-General to carry out the audit for the year ended 30 June 2010.

6. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 5 October 2010.

By Order of the Board



JLG Maonga
Secretary
Nairobi

5 October 2010

**STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE
FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2010**

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose, with reasonable accuracy, 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 the requirements of the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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

Mark K ole Karbolo
Director

Kepha L Tande
Director

5 October 2010



Experience 3 in 1 FOUNDATION

...of Blue Triangle Cement

We know you value a strong building foundation.

So for over 75 years we have selected and blended raw materials and followed stringent quality control procedures in manufacturing of Blue Triangle Cement.

We have perfected our cement with a 3 in 1 action that is uncompromising in durability, strength and bright plastering finish, making Blue Triangle the ultimate cement for all your construction needs.





KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2010

The accompanying financial statements of East African Portland Cement Company Limited set out at pages 30 to 82 which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernst & Young, 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 and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor General

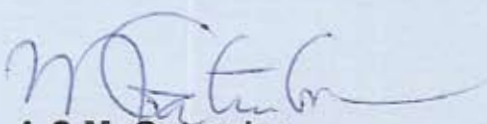
My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

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

I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Companies Act, Cap 486 of the Laws of Kenya.



A.S.M. Gatumbu
AUDITOR GENERAL

Nairobi

5 October 2010

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

| | Note | 2010 KShs'000 | 2009 KShs'000 |
|--|-------|-------------------|-------------------|
| ASSETS | | | Restated* |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 4 | 7,560,748 | 7,341,544 |
| Intangible assets | 5 | 1,044 | 2,822 |
| Prepaid operating leases | 6 | 11,744 | 9,619 |
| Investment properties | 7 | 1,495,000 | 1,495,000 |
| Restricted deposits | 8 | 57,349 | 55,933 |
| | | 9,125,885 | 8,904,918 |
| CURRENT ASSETS | | | |
| Biological assets | 9 | - | 4,991 |
| Inventories | 10 | 1,189,533 | 792,606 |
| Trade and other receivables | 11 | 671,977 | 682,809 |
| Amount due from related party | 12 | 5,769 | 58,972 |
| Tax recoverable | 13(a) | 92,622 | 79,705 |
| Short term deposits | 8 | 688,585 | 1,225,450 |
| Bank balances and cash | 14 | 263,194 | 286,512 |
| | | 2,911,680 | 3,131,045 |
| TOTAL ASSETS | | 12,037,565 | 12,035,963 |
| SHAREHOLDERS' FUNDS AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 15(a) | 450,000 | 450,000 |
| Share premium | 15(b) | 648,000 | 648,000 |
| Asset revaluation reserve | 15(c) | 1,261,760 | 1,281,247 |
| Retained earnings | | 3,341,441 | 3,723,005 |
| SHAREHOLDERS' FUNDS | | 5,701,201 | 6,102,252 |
| NON CURRENT LIABILITIES | | | |
| Staff gratuity | 17 | 437,459 | 416,315 |
| Deferred tax liability | 18 | 999,720 | 1,058,086 |
| Long - term loan | 19 | 3,040,555 | 2,946,918 |
| Obligations under finance leases | 20 | 21,980 | - |
| | | 4,499,714 | 4,421,319 |
| CURRENT LIABILITIES | | | |
| Current portion of long - term loan | 19 | 361,632 | 314,162 |
| Obligations under finance leases | 20 | 13,100 | - |
| Trade and other payables | 21 | 1,461,918 | 1,198,230 |
| | | 1,836,650 | 1,512,392 |
| TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES | | 12,037,565 | 12,035,963 |

*Certain figures shown here do not correspond to the 2009 financial statements and reflect adjustments made as detailed in note 44.

The Financial Statements set out on pages 30 to 82 were approved by the Board of Directors on 5 October 2010 and were signed on its behalf by:-

Mark K ole Karbolo) Chairman
Kephah L Tande) Ag Managing Director

The notes set out on pages 34 to 82 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

| | Note | 2010 KShs'000 | 2009 Shs'000 Restated |
|---|-------|------------------|-----------------------------|
| REVENUE | 22 | 9,408,711 | 8,101,377 |
| Cost of sales | 23 | (7,375,924) | (5,563,282) |
| Gross profit | | 2,032,787 | 2,538,095 |
| Other operating income | 24 | 14,511 | 150,344 |
| Provisions Written Back | 25 | 2,335 | 21,935 |
| Farm net loss | 26 | (9,321) | (11,251) |
| | | 2,040,312 | 2,699,123 |
| EXPENSES | | | |
| Selling and distribution | 27 | 586,808 | 704,959 |
| Administration and establishment | 28 | 1,194,505 | 681,736 |
| Other operating expenses | 29 | 168,984 | 65,383 |
| | | 1,950,297 | 1,452,078 |
| PROFIT FROM OPERATIONS | | 90,015 | 1,247,045 |
| Changes in fair value of Investment properties | 7 | - | 1,494,008 |
| Finance income | 30 | 105,113 | 61,810 |
| Finance costs | 31 | (533,699) | (921,185) |
| (Loss)/profit before tax | 32 | (338,571) | 1,881,678 |
| Income tax credit/(expense) | 13(b) | 46,169 | (47,624) |
| (Loss)/profit for the year | | (292,402) | 1,834,054 |
| Other comprehensive income | | | |
| Revaluation of property, plant and equipment | 4 | - | 342,959 |
| Income tax effect | 18 | - | (102,888) |
| | | - | 240,071 |
| TOTAL COMPREHENSIVE INCOME | | (292,402) | 2,074,125 |
| Earnings per share | | | |
| Basic and diluted (KShs) | 33 | (3.25) | 20.38 |

The notes set out on pages 34 to 82 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

| | Share capital KShs'000 | Share premium KShs'000 | Asset revaluation reserve KShs'000 | Retained earnings KShs'000 | Total KShs'000 |
|---|------------------------------|------------------------------|---|----------------------------------|-------------------|
| At 1 July 2008 | 450,000 | 648,000 | 1,093,293 | 1,835,456 | 4,026,749 |
| Total comprehensive income | - | - | 240,071 | 1,834,054 | 2,074,125 |
| Transfer of excess depreciation | - | - | (47,602) | 47,602 | - |
| Deferred tax on excess depreciation | - | - | 14,281 | - | 14,281 |
| Surplus realised on disposal of revalued assets | - | - | (5,893) | 5,893 | - |
| Deferred tax on disposal of revalued assets | - | - | 1,768 | - | 1,768 |
| Impairment of property, plant and equipment | - | - | (14,671) | - | (14,671) |
| At 30 June 2009 | 450,000 | 648,000 | 1,281,247 | 3,723,005 | 6,102,252 |
| At 1 July 2009 Restated | 450,000 | 648,000 | 1,281,247 | 3,723,005 | 6,102,252 |
| Transfer of excess depreciation | - | - | (26,198) | 26,198 | - |
| Deferred tax on excess depreciation | - | - | 7,859 | - | 7,859 |
| Surplus realised on disposal of revalued assets | - | - | (495) | 495 | - |
| Deferred tax on disposal of revalued assets | - | - | 149 | - | 149 |
| Impairment of equipment | - | - | (1,145) | 1,145 | - |
| Deferred tax on impairment of equipment | - | - | 343 | - | 343 |
| Total comprehensive income | - | - | - | (292,402) | (292,402) |
| Dividends (note 16) | - | - | - | (117,000) | (117,000) |
| At 30 June 2010 | 450,000 | 648,000 | 1,261,760 | 3,341,441 | 5,701,201 |

The notes set out on pages 34 to 82 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

| | Note | 2010 KShs'000 | 2009 KShs'000 |
|---|-------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Cash generated from operations | 35(a) | 441,015 | 1,911,926 |
| Interest paid | 35(c) | (84,526) | (83,051) |
| Interest received | 30 | 105,113 | 61,810 |
| Income tax paid | | (16,763) | (9,675) |
| Net cash generated from operating activities | | 444,839 | 1,881,010 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 35(d) | (584,243) | (1,091,337) |
| Proceeds from sale of equipment | | 712 | 7,617 |
| Investment in restricted deposits | | (1,416) | (1,770) |
| Proceeds from sale of biological assets | 9 | 4,991 | 1,765 |
| Net cash used in investing activities | | (579,956) | (1,083,725) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | 16 | (117,000) | - |
| Loan repayment | 35(b) | (308,066) | (273,932) |
| Net cash used in financing activities | | (425,066) | (273,932) |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | (560,183) | 523,353 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 1,511,962 | 988,609 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 35(e) | 951,779 | 1,511,962 |

The notes set out on pages 34 to 82 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous year except as follows:

The Company has adopted the following new standards, amendments and interpretations, which became effective as of 1 July 2009.

- Amendments to IFRS 7, Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments. The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. This amendment had no impact on the financial position of the company.
- IFRS 8, Operating Segments. This standard requires disclosure of information about the company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the company. IFRS 8 replaces IAS 14, Segment Reporting, upon effective date. This amendment had no impact on the financial position or performance of the company.
- IAS 1 (Revised 2007), Presentation of Financial Statements. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one statement, or in two linked statements. The company has chosen to present one statement.
- IAS 23, Borrowing Costs (effective from 1 January 2009) - The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. During the year, there were no borrowings for the acquisition of qualifying assets.
- IAS 32, Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation. These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The adoption of these standards had no impact on the financial position or performance of the company.
- IFRS 2, Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective from 1 January 2009). The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services.

Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This amendment had no impact on the financial position or performance of the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)**

- IFRIC 13, Customer Loyalty Programmes. The interpretation was issued in June 2007 and is effective for accounting periods beginning on or after 1 July 2008. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. IFRIC 13 had no impact on the financial position or performance of the company.
- IFRIC 15, Agreement for the Construction of Real Estate. IFRIC 15 was issued in July 2008 and is effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This standard has no effect on the company's financial statements.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation. IFRIC 16 was issued in July 2008 and is effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the company the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This standard has no impact on the company's financial statements.
- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for periods beginning on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This standard will have no effect on the company's financial statements.
- IFRIC 18, Transfers of Assets from Customers (effective for periods beginning on or after 1 July 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This standard will have no effect on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)***Improvements to IFRSs*

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the company.

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8, Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. This amendment had no impact on the financial position or performance of the company.
- IAS 1, Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement, are not automatically classified as current in the statement of financial position. The company analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- IAS 7, Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment had no impact on the financial statements of the company.
- IAS 16, Property, Plant and Equipment: Replaces the term “net selling price” with “fair value less costs to sell”. The change had no impact on the company’s financial position or performance.
- IAS 18, Revenue: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - Has primary responsibility for providing the goods or service
 - Has inventory risk
 - Has discretion in establishing prices
 - Bears the credit risk
- IAS 20, Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not have any impact on the company, as it does not receive any government grants or assistance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

- NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

- Improvements to IFRSs (continued)*

- IAS 23, Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 36, Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the company because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the company as the annual impairment test is performed before aggregation.

- IAS 38, Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the company either has the right to access the goods or has received the service. This amendment has no impact on the company because it does not enter into such promotional activities.
- The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Company has reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.
- Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:
 - IFRS 2, Share-based Payment
 - IFRS 7, Financial Instruments: Disclosures
 - IAS 8, Accounting Policies, Change in Accounting Estimates and Errors
 - IAS 10, Events after the Reporting Period
 - IAS 19, Employee Benefits
 - IAS 27, Consolidated and Separate Financial Statements
 - IAS 28, Investments in Associates
 - IAS 31, Interests in Joint Ventures
 - IAS 34, Interim Financial Reporting
 - IAS 38, Intangible Assets
 - IAS 40, Investment Properties
 - IAS 39, Financial Instruments: Recognition and Measurement
 - IFRIC 9, Reassessment of Embedded Derivatives
 - IFRIC 16, Hedge of a Net Investment in a Foreign Operation

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010**• **NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)**

The Company has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective. The Company expects adoption of these standards, amendments and interpretations not to have any significant impact on the company's financial statements in the period of initial application but additional disclosures will be required.

- IFRS 2, Share-based Payment (Revised): The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for company cash-settled share-based payment transactions and is effective for the periods beginning on or after 1 January 2010.
- IFRS 3, (Revised) Business Combinations and IAS 27 (Revised), Consolidated and Separate Financial Statements (effective 1 July 2009). The revised standards were issued in January 2008 and are effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7, Statement of Cash Flows, IAS 12, Income Taxes, IAS 21, The Effects of Changes in Foreign Exchange Rates, IAS 28, Investment in Associates and IAS 31, Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.
- IAS 24, Related Party Disclosures (Revised): The revised Standard was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 January 2011. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

This Standard shall be applied in: (a) identifying related party relationships and transactions; (b) identifying outstanding balances, including commitments, between an entity and its related parties; (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and determining the disclosures to be made about those items. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27, Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.

- IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As per management assessment, the amendment will have no impact on the financial position or performance of the company, as the Company has not entered into such hedges.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)**

- IFRIC 9, Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement: This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.
- IFRS 9, 'Financial Instruments (effective 1 January 2013)': IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
 - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
 - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features').
 - All other debt instruments are to be measured at fair value through profit or loss.
 - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss.
 - There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments: The Interpretation was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 April 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish the liability are "consideration paid" in accordance with IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date it was extinguished. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognised immediately in profit or loss. The resulting gain or loss is disclosed separately on the statement of comprehensive income, or the separate statement of other comprehensive income (if presented), or in the notes. This standard will have no effect on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared on the historical cost basis of accounting except where otherwise stated or disclosed.

(b) Revenue recognition

Revenue is recognised in the statement of comprehensive income when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue is measured at fair value net of taxes and discount.

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

(c) Taxes**Current tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred tax

Deferred tax is provided for 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. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the tax authorities, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the tax authorities is included as part of accounts receivables or payables in the statement of financial position.

(d) Property, plant and equipment

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

The Company's policy is to professionally revalue property, plant and equipment at least once every five years. The last revaluation was carried out as at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Depreciation**

No depreciation is provided on freehold land.

Depreciation on other items of property, plant and equipment is charged on the straight-line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

| | |
|--|--|
| Buildings | 2.5% or period of lease, whichever is less |
| Plant and machinery | 5 to 12.5% |
| Motor vehicles | 25% - 33.33% |
| Office equipment, furniture and fittings | 5 to 25% |
| Computers | 33.33% |

The residual values and useful lives are reassessed annually and where the residual value exceeds the carrying value, no depreciation is charged in the next year.

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

(f) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

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

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

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

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

(h) Leasehold land

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

(i) Investment properties

Investment properties are measured initially at cost, including transaction costs, and excluding the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

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

The company's policy is to obtain valuation of investment properties by independent professional valuers at least once every three years. The last valuation was carried out as at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(i) Investment properties (continued)**

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

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

(j) Impairment**i) Financial assets**

The company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, an allowance for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(ii) Non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Impairment (continued)****(ii) Non-financial assets (continued)**

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

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

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

(k) Inventories

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

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

(l) Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(I) Financial instruments (continued)**

Purchase and sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, which is the date that the company commits to purchase or sell the asset.

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset and has transferred its right to cash flows from the asset or has assumed an obligation to pay the received cash flows without material delay to a third party under a 'pass through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another by the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts are recognised in the statement of comprehensive income.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include receivables arising from day to day sale of goods and services. They are measured at amortised cost less impairment losses using the effective interest rate method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Trade and other receivables

Trade and other receivables consist of all receivables which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate. An allowance is made for any unrecoverable amounts.

Borrowings

Interest bearing loans are recorded at the proceeds received. Finance charges are recognised on the accrual 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 and other payables consist of all payables which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate.

Cash and cash equivalents

For the purpose of the statement of cash flows, 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. Cash and cash equivalents are measured at amortised cost.

(m) Foreign currency

Assets and liabilities that are denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling on the reporting date. Transactions during the year, which are expressed in foreign currencies, are converted at the rates ruling on the dates of the transactions. Gains and losses on exchange are dealt with in the statement of comprehensive income.

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Kenya shillings (KShs) which is the company's functional currency.

(n) Dividends payable

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Employee benefits****i) Short-term benefits**

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under a short-term cash bonus only if the company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

ii) Retirement benefit costs

The company operates a funded defined contribution pension scheme for senior and supervisory staff, as well as an in-house gratuity scheme for unionisable employees. The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of KShs 200 per month per employee.

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

(p) Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

The company's unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements at present value of benefits payable as it accrues to each employee.

(q) Mining and exploration costs

All exploration costs for the mining of limestone are expensed in the period that they occur and form part of cost of sales.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions

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

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

(s) Offsetting

Financial assets and liabilities are offset and the net amounts reported on the statement of financial position when there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical areas of accounting estimates and judgements in relation to the preparation of these financial statements are as set out below:

Impairment of assets

At each reporting date, the company reviews the carrying amount of its assets to determine whether there is any indication that these 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 impairment.

Property, plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Intangible assets

Critical estimates are made by directors in determining the useful lives and residual values to intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

4. PROPERTY, PLANT AND EQUIPMENT

(a) Year ended 30 June 2010

| | Freehold land KShs'000 | Buildings KShs'000 | Plant and chinery KShs'000 | Motor vehicles KShs'000 | Computers, office equipment, furniture and fittings KShs'000 | Capital – work-in- Progress KShs'000 | Total KShs'000 |
|---|------------------------------|-----------------------|----------------------------------|-------------------------------|---|---|-------------------|
| COST OR VALUATION | | | | | | | |
| At 1 July 2009 (Restated) | 119,950 | 1,124,964 | 5,085,952 | 395,609 | 139,739 | 475,330 | 7,341,544 |
| Additions | 46,385 | - | - | 58,814 | 73,977 | 440,147 | 619,323 |
| Disposals | - | - | - | (660) | - | - | (660) |
| At 30 June 2010 | 166,335 | 1,124,964 | 5,085,952 | 453,763 | 213,716 | 915,477 | 7,960,207 |
| COMPRISING | | | | | | | |
| Valuation adjustment at 30 June 2009 | 98,898 | 1,096,017 | 3,113,628 | 354,386 | (250,231) | - | 4,412,698 |
| Cost | 67,437 | 28,947 | 1,972,324 | 99,377 | 463,947 | 915,477 | 3,547,509 |
| | 166,335 | 1,124,964 | 5,085,952 | 453,763 | 213,716 | 915,477 | 7,960,207 |
| DEPRECIATION | | | | | | | |
| At 1 July 2009 | - | - | - | - | - | - | - |
| Charge for the year | - | 28,125 | 267,228 | 77,221 | 25,905 | - | 398,479 |
| Eliminated on disposal | - | - | - | (165) | - | - | (165) |
| Impairment of equipment | - | - | - | - | 1,145 | - | 1,145 |
| At 30 June 2010 | - | 28,125 | 267,228 | 77,056 | 27,050 | - | 399,459 |
| NET BOOK VALUE | | | | | | | |
| At 30 June 2010 | 166,335 | 1,096,839 | 4,818,724 | 376,707 | 186,666 | 915,477 | 7,560,748 |

Capital–work–in–progress relates to amounts incurred on installation of a coal grinding and dosing facility.

The property, plant and equipment were revalued by Crystal Valuers Limited, registered valuers, as at 30 June 2009. The land was valued on an Open Market Value basis while the other assets were valued on a Depreciated Replacement Cost basis. The Company's policy is to revalue property, plant and equipment at least once every five years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

4. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Year ended 30 June 2009 (Restated)

| | Freehold land KShs'000 | Buildings KShs'000 | Plant and machinery KShs'000 | Motor vehicles KShs'000 | Computers, office equipment, furniture and fittings KShs'000 | Capital – work-in- progress KShs'000 | Total KShs'000 |
|---|------------------------------|-----------------------|------------------------------------|-------------------------------|--|---|-------------------|
| COST OR VALUATION | | | | | | | |
| At 1 July 2008 | 74,600 | 1,221,612 | 3,813,270 | 400,412 | 366,872 | 1,396,275 | 7,273,041 |
| Additions | - | - | 28,410 | 43,346 | 23,098 | 996,483 | 1,091,337 |
| Disposals | - | - | - | (10,805) | - | - | (10,805) |
| Transfer of work-in-progress | - | - | 1,917,428 | - | - | (1,917,428) | - |
| Transfer from leasehold land | 21,052 | - | - | - | - | - | 21,052 |
| Revaluation adjustment (note 6) | 24,298 | (96,648) | (673,156) | (37,344) | (250,231) | - | (1,033,081) |
| At 30 June 2009 | 119,950 | 1,124,964 | 5,085,952 | 395,609 | 139,739 | 475,330 | 7,341,544 |
| COMPRISING | | | | | | | |
| Valuation adjustment at 30 June 2008 | 98,898 | 1,096,017 | 3,113,628 | 336,372 | (250,231) | - | 4,394,684 |
| Cost | 21,052 | 28,947 | 1,972,324 | 59,237 | 389,970 | 475,330 | 2,946,860 |
| | 119,950 | 1,124,964 | 5,085,952 | 395,609 | 139,739 | 475,330 | 7,341,544 |
| DEPRECIATION | | | | | | | |
| At 1 July 2008 | - | 59,801 | 504,537 | 178,279 | 225,353 | - | 967,970 |
| Charge for the year | - | 30,540 | 254,904 | 84,751 | 29,107 | - | 399,302 |
| Eliminated on disposal | - | - | - | (5,903) | - | - | (5,903) |
| Impairment of plant, property and equipment | - | 3,036 | 8,725 | 2,910 | - | - | 14,671 |
| Eliminated on valuation | - | (93,377) | (768,166) | (260,037) | (254,460) | - | (1,376,040) |
| At 30 June 2009 | - | - | - | - | - | - | - |
| NET BOOK VALUE | | | | | | | |
| At 30 June 2009 | 119,950 | 1,124,964 | 5,085,952 | 395,609 | 139,739 | 475,330 | 7,341,544 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

The Company has a bank overdraft facility of KShs219,600,000 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's assets for KShs219,600,000. No amounts were drawn against this facility as at 30 June 2010.

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

| | 2010 KShs'000 | 2009 KShs'000 |
|--------------------------|--------------------------------|--------------------------------|
| Cost | 10,313,224 | 9,733,621 |
| Accumulated depreciation | (4,604,534) | (4,232,179) |
| Net book value | 5,708,690 | 5,501,442 |

(c) Finance leases

Additions during the year include KShs 35 million (2009 – Nil) of motor vehicles under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

5. INTANGIBLE ASSETS

| | 2010 KShs'000 | 2009 KShs'000 |
|---|--------------------------------|--------------------------------|
| COST | | |
| At the beginning and at the end of year | 49,762 | 49,762 |
| AMORTISATION | | |
| At the beginning of the year | 46,940 | 41,069 |
| Charge for the year | 1,778 | 5,871 |
| | 48,718 | 46,940 |
| NET BOOK VALUE | | |
| At 30 June | 1,044 | 2,822 |

Intangible assets relate to computer software in use by the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010

6. PREPAID OPERATING LEASES

| | 2010 KShs'000 | 2009 KShs'000 |
|---------------------------------------|------------------|------------------|
| COST | | |
| At the beginning year | 12,886 | 35,372 |
| Transfer to investment property | - | (1,000) |
| Transfer to freehold land | - | (21,486) |
| | 12,886 | 12,886 |
| AMORTISATION AND IMPAIRMENT | | |
| At the beginning of the year | 3,267 | 715 |
| Amortization charge | 210 | 286 |
| Impairment charge | - | 2,708 |
| Provision for impairment written back | (2,335) | - |
| Transfers to investment property | - | (434) |
| Transfer to freehold land | - | (8) |
| At the end of the year | 1,142 | 3,267 |
| NET BOOK VALUE | | |
| At 30 June | 11,744 | 9,619 |

Included in prepaid operating leases is a parcel of land acquired at a cost of KShs 408,330 for which the company's ownership is the subject of a dispute in court. A provision for impairment for the parcel of land, with a carrying amount of KShs 373,498, has been made in the books of account.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010

| 7. INVESTMENT PROPERTIES | 2010 | 2009 |
|--|-----------|-----------|
| | KShs'000 | KShs'000 |
| Balance at the beginning of the year | 1,495,000 | - |
| Transfer from operating lease rentals (note 6) | - | 992 |
| Changes in fair value of investment properties | - | 1,494,008 |
| At 30 June | 1,495,000 | 1,495,000 |

Investment properties relate to two pieces of leasehold land held by the Company, under long-term lease arrangements. The land was valued at KShs1.495 billion by Crystal Valuers Limited, accredited independent valuers, as at 30 June 2009. The present value of the ground rent obligations is immaterial and thus, the valuation amount of KShs1.495 billion is equivalent to the fair values of these properties.

| 8. DEPOSITS | 2010 | 2009 |
|--|----------|-----------|
| | KShs'000 | KShs'000 |
| Short-term deposits: | | |
| The Co-operative Bank of Kenya Limited | 109,088 | 238,005 |
| Kenya Commercial Bank Limited | 518,860 | 212,652 |
| Standard Chartered Bank Kenya Limited | - | 557,119 |
| CfC Stanbic Bank Limited | 60,637 | 217,674 |
| | 688,585 | 1,225,450 |
| Restricted deposits: | | |
| Housing Finance Corporation of Kenya Limited | 57,349 | 55,933 |

The short-term deposits mature within three months and the weighted average interest rate earned on the deposits during the year was 4.38% (2009 – 5.05 %).

The deposits with Housing Finance Limited have been held as collateral for staff mortgages. The weighted average interest rate earned on the deposits during the year was 2.67% (2009 - 2.67%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

9. BIOLOGICAL ASSETS

| | Cattle | Goats | 2010 | 2009 |
|--|-----------------|-----------------|-----------------|-----------------|
| | KShs'000 | KShs'000 | Total | Total |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Livestock | | | | |
| Fair value at the beginning of the year | 4,393 | 598 | 4,991 | 8,198 |
| Decreases due to sales | (4,393) | (598) | (4,991) | (1,765) |
| Fair value (loss)/gain on livestock (9(a)) | - | - | - | (1,442) |
| Fair value as at 30 June | - | - | - | 4,991 |
| (a) Fair value (loss)/gain on livestock | | | | |
| Loss arising from change in price | - | - | - | (2,347) |
| Gains arising from physical changes | - | - | - | 905 |
| | - | - | - | (1,442) |

- (b) Biological assets represent the value of livestock which is stated at market value less estimated transport and point of sale costs. The company discontinued farming activities in 2009 and sold the biological assets held at the amount shown in the financial statements for the year ended 30 June 2009, after year end.

10. INVENTORIES

| | 2010 | 2009 |
|-------------------|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Consumables | 596,470 | 456,713 |
| Raw materials | 476,642 | 268,124 |
| Work-in-progress | 17,587 | 3,724 |
| Finished products | 98,834 | 64,045 |
| | 1,189,533 | 792,606 |

11. TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|---|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Gross trade receivables | 604,574 | 598,574 |
| Impaired trade receivables | (222,691) | (210,040) |
| Net trade receivables | 381,883 | 388,534 |
| Staff receivables | 25,207 | 23,262 |
| Deposits, prepayments and other receivables | 264,887 | 271,013 |
| | 671,977 | 682,809 |

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010**

Trade receivables are non-interest bearing. The average credit period on sales of finished goods is 15 days. The bulk of the trade receivables are covered by bank guarantees in favour of the company. For terms and conditions relating to related party receivables, refer to note 12. Before accepting any new customer, the Company uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year.

As at 30 June, the aging analysis of trade receivables was as follows:

| | 2010 KShs'000 | 2009 KShs'000 |
|--|--------------------------------|--------------------------------|
| Neither past due nor impaired | 165,712 | 258,109 |
| Past due but not impaired trade receivables: | | |
| Between 15 and 30 days | 35,963 | 57,637 |
| Between 31 and 60 days | 645 | 53,849 |
| Over 60 days | 179,563 | 18,939 |
| Gross trade receivables not impaired | 381,883 | 388,534 |
| Impaired trade receivables | 222,691 | 210,040 |
| Total trade receivables | 604,574 | 598,574 |

The Company has provided for all receivables that are impaired. These receivables are over 120 days old. The movement in the provision for credit losses is as set out below:

| | Trade receivables KShs'000 | Other Receivables KShs'000 | Total 2010 KShs'000 | Total 2009 KShs'000 |
|------------------------------|---|---|--|--|
| At the beginning of the year | 210,040 | 48,412 | 258,452 | 232,076 |
| Impairment losses | 12,651 | 39,928 | 52,579 | 26,376 |
| As at 30 June | 222,691 | 88,340 | 311,031 | 258,452 |

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| Outstanding balances arising from transactions with related companies: | | |
| (a) Amount due from related party: | | |
| Bamburi Cement Limited | 5,769 | 58,972 |

The amount relates to deposits made by the company to Bamburi Cement Limited for the purchase of clinker. Bamburi Cement Limited owns 12.5% of the shareholding in The East African Portland Cement Company Limited. No interest is charged on the balances due from related companies, which are due within 2 months of the date of the transactions.

The following transactions were carried out with related parties:-

| | | |
|---|------------------|------------------|
| (b) Purchases from related parties: | 2010 KShs'000 | 2009 KShs'000 |
| Purchase of clinker from Bamburi Cement Limited | 259,565 | 326,949 |
| (c) Directors' remuneration: | | |
| Fees for services as directors | 1,260 | 1,160 |
| Other emoluments | 21,683 | 20,765 |
| | 22,943 | 21,925 |
| (d) Key management compensation: | | |
| Short-term employee benefits | 30,991 | 24,921 |
| Termination benefits | 7,302 | 3,148 |
| Medical benefits | 720 | 652 |
| | 39,013 | 28,721 |

13. TAXES

| | | |
|-------------------------------------|------------------|------------------|
| (a) Tax recoverable | 2010 KShs'000 | 2009 KShs'000 |
| At beginning of year | 79,705 | 101,591 |
| Charge for the year (note 13(b)) | (2,449) | (2,418) |
| Over-provision in the previous year | (1,397) | (29,143) |
| Paid in the year | 16,763 | 9,675 |
| At end of year | 92,622 | 79,705 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**13. TAXES (continued)**

| (b) Income tax expense | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| Current tax based on the adjusted profit for the year at 30% | 2,449 | 2,418 |
| Over provision in previous year | 1,397 | - |
| Total current tax charge | 3,846 | 2,418 |
| Deferred tax (credit)/charge (note 18) | (50,015) | 45,206 |
| | (46,169) | 47,624 |

(c) Reconciliation of expected tax based on accounting loss/profit to the tax charge

| | | |
|--|-----------|-----------|
| Accounting (loss) / profit before tax | (338,571) | 1,881,678 |
| Tax at the applicable rate of 30% | - | 564,503 |
| Tax effect of expenses not deductible for tax purposes | (47,566) | (512,532) |
| Prior year over provision | 1,397 | (4,347) |
| | 46,169 | 47,624 |

14. BANK BALANCES AND CASH

| | 2010 KShs'000 | 2009 KShs'000 |
|---------------|------------------|------------------|
| Bank balances | 262,562 | 286,471 |
| Cash in hand | 632 | 41 |
| | 263,194 | 286,512 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**15. SHARE CAPITAL AND RESERVES**

| | 2010 KShs'000 | 2009 KShs'000 |
|------------------------------------|------------------|------------------|
| (a) Share capital | | |
| Authorised: | | |
| 126,000,000 shares of KShs5 each | 630,000 | 630,000 |
| Authorised, issued and fully paid: | | |
| 90,000,000 shares of KShs5 each | 450,000 | 450,000 |

(b) Share premium

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

(c) Asset revaluation reserve

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

16. DIVIDEND PROPOSED AND PAID

| | 2010 KShs'000 | 2009 KShs'000 |
|---|------------------|------------------|
| Declared and paid during the year | | |
| Final dividend for 2009 – KShs 1.30 (2008 – nil) per share | 117,000 | - |
| Proposed for approval at the Annual General Meeting (not recognised as a liability as at 30 June) | | |
| Final dividend for 2009 | - | 117,000 |

- (i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.
- (ii) A first and final dividend in respect of year 2009 of KShs 1.30 was approved and paid during the year. No dividends have been proposed for the current year.
- (iii) (iii) Payment of dividend is subject to withholding tax at the rate of 5% and 10% for resident and non-resident shareholders respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

17. STAFF GRATUITY

This represents outstanding obligations in respect of staff gratuity payable under the Collective Bargaining Agreement for unionisable staff and staff on contract. The movement during the year was as follows:

| | 2010 KShs'000 | 2009 KShs'000 |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 416,315 | 489,338 |
| Paid during the year | (84,269) | (64,057) |
| Provision for the year | 105,413 | (8,966) |
| Balance as at 30 June | 437,459 | 416,315 |

18. DEFERRED TAX

Movements in deferred tax during the year were as follows

| | At 1 July 2009 KShs'000 | Statement of comprehensive income KShs'000 | Equity KShs'000 | At 30 June 2010 KShs'000 |
|--------------------------------|-------------------------------|---|--------------------|--------------------------------|
| Deferred tax liabilities | | | | |
| Property, plant and equipment | 666,116 | 410,396 | - | 1,076,512 |
| Unrealised exchange gain | - | 35,706 | - | 35,706 |
| Revalued assets | 459,760 | 102,888 | (16,049) | 546,599 |
| Overprovision in previous year | - | (4,347) | - | (4,347) |
| | 1,125,876 | 544,643 | (16,049) | 1,654,470 |

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****18. DEFERRED TAX LIABILITY (continued)**

| | At 1 July 2008 | Statement of comprehen- sive income | Equity | At 30 June 2009 | |
|------------------------------|-------------------|---|----------|--------------------|--|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | |
| Deferred tax assets | | | | | |
| Tax loss (business) | - | (211,639) | - | (211,639) | |
| Tax loss (farming) | (1,687) | (2,610) | - | (4,297) | |
| Provision for staff leave | (18,390) | 796 | - | (17,594) | |
| Provision for credit losses | (2,984) | 2,984 | - | - | |
| Provision for law suit | (10,203) | 10,203 | - | - | |
| Provision for staff gratuity | (146,802) | 21,907 | - | (124,895) | |
| Unrealised exchange loss | (19,769) | (218,190) | - | (237,959) | |
| | (199,835) | (396,549) | - | (596,384) | |
| Balance as at 30 June | 926,041 | 148,094 | | 1,058,086 | |

The movements in the statement of comprehensive have been classified as follows:

| | KShs'000 |
|--|----------|
| Income tax credit reported in the income statement (note 13) | 45,206 |
| Other comprehensive income | 102,888 |
| Total movement | 148,094 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**18. DEFERRED TAX LIABILITY (continued)**

| | At 1 July 2009 | Statement of compre- hensive income | Equity | At 30 June 2010 | |
|--------------------------------|-------------------|--|----------|--------------------|--|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | |
| Deferred tax liabilities | | | | | |
| Property, plant and equipment | 1,076,512 | 12,615 | (2,506) | 1,086,621 | |
| Unrealised exchange gain | 35,706 | (35,706) | - | - | |
| Revalued assets | 546,599 | - | (5,845) | 540,754 | |
| Overprovision in previous year | (4,347) | 4,347 | - | - | |
| | 1,654,470 | (18,744) | (8,351) | 1,627,375 | |
| Deferred tax assets | | | | | |
| Tax loss (business) | (211,639) | (98,134) | - | (309,773) | |
| Tax loss (farming) | (4,297) | (2,221) | - | (6,518) | |
| Provision for staff leave | (17,594) | (4,375) | - | (21,969) | |
| Provision for staff gratuity | (124,895) | (6,343) | - | (131,238) | |
| Provision for bonus | - | (22,198) | - | (22,198) | |
| Unrealised exchange loss | (237,959) | 102,000 | - | (135,959) | |
| | (596,384) | (31,271) | - | (627,655) | |
| Balance as at 30 June | 1,058,086 | (50,015) | (8,351) | 999,720 | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

19. LONG - TERM LOAN

The Overseas Economic Co-operation Fund of Japan (JICA) loan guaranteed by Kenya Government is denominated in Japanese Yen and is repayable in 41 half yearly instalments by 20 March 2020 with interest at 2.5% per annum – Japanese Yen 3,653,596,749 (2009 – Japanese Yen 4,018,916,749)

| | 2010 KShs'000 | 2009 KShs'000 |
|---------------------------------|------------------|------------------|
| Balance as at 30 June | 3,378,353 | 3,241,578 |
| Accrued interest | 23,834 | 19,502 |
| | 3,402,187 | 3,261,080 |
| Less: repayable within one year | (361,632) | (314,162) |
| Repayable after one year | 3,040,555 | 2,946,918 |

Due to the fact that the loan from the JICA is guaranteed by the Kenya Government, it was included in the Paris Club rescheduling arrangements of the Kenya Government loans in 2004. Between 2004 and December 2007, the company had been remitting the loan repayments to the Kenya Government in two annual instalments of Yen 182,660,000 totalling to Japanese Yen 1,278,620,000 but these payments have not been transmitted to the JICA, the ultimate lender, due to the rescheduling arrangement which required the amounts to be repaid beginning 30 June 2011.

As at 30 June 2010, this amount has attracted a total unrealised exchange loss of KShs 316,177,900 (2009 – 165,503,363). It is understood that this loss and any further differences in future relating to the rescheduled balance, will be absorbed by the Kenya Government.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**20. OBLIGATIONS UNDER FINANCE LEASES**

The company has commercial leases on certain motor vehicles. These leases have an average life of three years with the option of a one year renewal but no purchase options are included in the contracts. There are no restrictions placed on the company by entering into these leases. Future minimum payments under the finance leases together with the present value of the net minimum lease payments are as follows:

| | Minimum payments | 2010 Present value of lease payments | Minimum payments KShs'000 | 2009 Present value of lease payments KShs'000 |
|---|------------------|---|------------------------------|---|
| Within one year | 14,097 | 13,100 | - | - |
| After one year but not more than five years | 28,193 | 21,980 | - | - |
| Total minimum lease payments | 42,290 | 35,080 | - | - |
| Less amounts representing finance charges | (7,210) | - | - | - |
| Present value of minimum lease payments | 35,080 | 35,080 | - | - |

The interest applicable to the above leases is 12%, which is the rate used by the bank to determine the periodic lease payments.

21. TRADE AND OTHER PAYABLES

| | 2010 KShs'000 | 2009 KShs'000 |
|---------------------------------|------------------|------------------|
| Trade payables | 799,387 | 578,127 |
| Other payables and accruals | 555,922 | 536,831 |
| Unclaimed dividends | 36,676 | 36,767 |
| Advance receipts from customers | 69,933 | 46,505 |
| Balance as at 30 June | 1,461,918 | 1,198,230 |

Trade and other payables are non-interest bearing. The average credit period on purchases is 30 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. These are disclosed under note 39.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**22. REVENUE**

| | 2010 | 2009 |
|------------------------|-----------|-----------|
| | KShs'000 | KShs'000 |
| Bagged cement – local | 8,506,163 | 7,612,390 |
| Bagged cement – export | 798,980 | 423,981 |
| Bulk cement – local | 103,568 | 65,006 |
| | 9,408,711 | 8,101,377 |

23. COST OF SALES

| | 2010 | 2009 |
|----------------------------|-----------|-----------|
| | KShs'000 | KShs'000 |
| Raw materials used | 2,280,733 | 1,352,953 |
| Furnace oil | 2,033,426 | 1,654,159 |
| Factory staff costs | 857,883 | 739,678 |
| Power | 844,087 | 723,933 |
| Factory depreciation | 355,540 | 358,697 |
| Maintenance costs | 423,186 | 215,403 |
| Raw materials transport | 229,769 | 200,988 |
| Factory direct supplies | 63,257 | 41,610 |
| Fuel and repairs | 176,111 | 166,586 |
| Factory insurance | 39,943 | 35,021 |
| Exploration expenses | 7,671 | 5,327 |
| Explosives | 10,692 | 6,480 |
| Royalties | 25,979 | 32,696 |
| Factory water | 6,416 | 6,973 |
| Factory land rate and rent | 3,263 | 3,226 |
| Consultancy fees | - | 382 |
| Hired equipment | 17,968 | 19,170 |
| | 7,375,924 | 5,563,282 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**24. OTHER OPERATING INCOME**

| | 2010 | 2009 |
|---|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Exchange gain on other foreign currency transactions and balances | - | 113,318 |
| Gain on disposal of property, plant and equipment | 217 | 2,715 |
| Other sundry income | 14,294 | 34,311 |
| | 14,511 | 150,344 |

25. PROVISIONS WRITTEN BACK

| | 2010 | 2009 |
|-------------------------|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Provisions written back | 2,335 | 21,935 |

- i) The write-back in 2010 relates to provision for impairment of leasehold land whose title documents were missing in the previous year. Management is in the process of obtaining the titles.
- ii) The write-back in 2009 relates to excess provision for termination benefits, which was made in the previous year and settled during the year.

26. FARM NET LOSS

| | 2010 | 2009 |
|--------------------------------------|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Farm gross income | 39 | 1,402 |
| Fair value (loss) (note 9) | - | (1,442) |
| Gross farm income/(loss) | 39 | (40) |
| Farm expenditure: | | |
| Farm salaries and wages | (6,909) | (9,251) |
| Farm general expenses | (722) | (187) |
| Farm depreciation | (164) | (653) |
| Impairment of equipment | (1,145) | - |
| Veterinary expenses and animal feeds | (131) | (671) |
| Farm petrol and diesel | (265) | (374) |
| Farm maintenance and repairs | (24) | (75) |
| Total farm expenditure | (9,360) | (11,211) |
| Net loss | (9,321) | (11,251) |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**27. SELLING AND DISTRIBUTION EXPENSES**

| | 2010 | 2009 |
|-----------------------------------|-----------------|-----------------|
| | KShs'000 | KShs'000 |
| Cement transport | 320,106 | 492,921 |
| Advertising and sales commissions | 162,207 | 113,915 |
| Fuel and repairs | 21,802 | 25,722 |
| Customs and other export levies | 55,481 | 42,680 |
| Depot rent | 12,421 | 3,080 |
| Public relations costs | 2,140 | 265 |
| Credit losses expense | 12,651 | 26,376 |
| | 586,808 | 704,959 |

28. ADMINISTRATION AND ESTABLISHMENT EXPENSES

| | 2010 | 2009 |
|--|------------------|-----------------|
| | KShs'000 | KShs'000 |
| Staff costs | 885,456 | 411,843 |
| Depreciation | 42,775 | 39,951 |
| Impairment of leasehold land | - | 2,708 |
| Amortisation of intangible assets | 1,778 | 5,871 |
| Amortisation of prepaid operating leases | 210 | 286 |
| Office supplies | 33,722 | 37,700 |
| Travelling expenses | 77,484 | 59,350 |
| Hired services | 28,319 | 25,034 |
| Telephone and postage | 17,154 | 11,606 |
| Company functions | 32,272 | 18,651 |
| Board expenses | 13,377 | 15,237 |
| Printing and stationery | 9,432 | 8,758 |
| Motor vehicle expenses | 7,952 | 8,552 |
| Computer expenses | 17,482 | 13,722 |
| Electricity | 10,733 | 13,847 |
| Office general expenses | 16,359 | 8,620 |
| | 1,194,505 | 681,736 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010

| | 2010 | 2009 |
|---|----------|----------|
| | KShs'000 | KShs'000 |
| 29. OTHER OPERATING EXPENSES | | |
| Professional fees | 52,663 | 35,473 |
| Subscriptions | 7,939 | 9,675 |
| Donations | 10,189 | 8,197 |
| Bank charges | 8,628 | 6,317 |
| Miscellaneous expenses | 2,962 | 2,971 |
| Credit losses expense | 14,553 | |
| Tax penalties and interest | 50,900 | - |
| Exchange loss on other foreign currency transactions and balances | 17,850 | - |
| Auditors' remuneration | 3,300 | 2,750 |
| | 168,984 | 65,383 |

| | 2010 | 2009 |
|---------------------------|----------|----------|
| | KShs'000 | KShs'000 |
| 30. FINANCE INCOME | | |
| Interest receivable | 105,113 | 61,810 |

| | 2010 | 2009 |
|--|----------|----------|
| | KShs'000 | KShs'000 |
| 31. FINANCE COSTS | | |
| Interest on overdraft | 1,733 | 2,779 |
| Interest payable on loans | 80,790 | 80,884 |
| Exchange loss on foreign currency loan | 451,176 | 837,522 |
| | 533,699 | 921,185 |

The exchange loss on the loan arises mainly from the translation of the Japanese Yen denominated loan to Kenya Shilling at the year-end. The loss resulted from the depreciation of the Kenya Shilling by 15% (2009 – 32%) against the Japanese Yen during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

32. PROFIT BEFORE TAX

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| The (loss)/profit before tax is arrived at after charging: | | |
| Directors' emoluments: | | |
| - Fees | 1,260 | 1,160 |
| - Other emoluments | 30,991 | 20,765 |
| Auditors' remuneration | 3,300 | 2,750 |
| Depreciation | 398,479 | 399,302 |
| Amortisation – Software | 1,778 | 5,871 |
| - Prepaid operating lease rentals | 210 | 286 |
| Staff costs (note 34) | 1,744,422 | 1,160,772 |
| Impairment of equipment | 1,145 | - |
| Impairment of leasehold land | - | 2,708 |
| Foreign exchange loss | 463,608 | 837,522 |
| And after crediting: | | |
| Foreign exchange gain | 1,907 | 113,318 |
| Provisions written back | 2,335 | 21,935 |
| Gain on disposal of property, plant and equipment | 217 | 2,715 |
| Changes in fair value of investment properties | - | 1,494,008 |

33. EARNINGS PER SHARE

Earnings per share are calculated by dividing the (loss)/profit attributable to shareholders by the number of ordinary shares in issue during the year.

| | 2010 KShs'000 | 2009 KShs'000 |
|---|------------------|------------------|
| Earnings for purposes of basic and diluted earnings per share | (292,402) | 1,834,054 |
| Number of ordinary shares (thousands) | 90,000 | 90,000 |
| Earnings per share - basic and diluted (KShs) | (3.25) | 20.38 |

There were no potentially dilutive ordinary shares outstanding at 30 June 2010 or 30 June 2009. Therefore, diluted earnings per share is the same as the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010**34. STAFF COSTS**

| | 2010 | 2009 |
|------------------------------|------------------|------------------|
| | KShs'000 | KShs'000 |
| Salaries and wages | 1,363,404 | 1,132,013 |
| Restructuring costs | 217,672 | - |
| Provision for staff gratuity | 105,413 | (8,966) |
| Pension contributions | 39,873 | 34,565 |
| Leave pay provision | 15,914 | 1,311 |
| Social security costs (NSSF) | 2,146 | 1,849 |
| | 1,744,422 | 1,160,772 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

35. STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operations

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| (Loss)/profit before tax | (338,571) | 1,881,678 |
| Adjustments for: | | |
| Depreciation | 398,479 | 399,302 |
| Amortisation on prepaid operating leases | 210 | 286 |
| Amortisation on intangible assets | 1,778 | 5,871 |
| Gain on sale of property, plant and equipment | (217) | (2,715) |
| Impairment of equipment | 1,145 | - |
| Impairment of leasehold land | - | 2,708 |
| Write-back of provision for impairment of leasehold land | (2,335) | - |
| Changes in fair value of investment properties | - | (1,494,008) |
| Exchange loss on foreign currency loan | 451,176 | 837,522 |
| Staff gratuity provision | 105,413 | (8,966) |
| Tax over-provision in prior year | - | 29,143 |
| Fair value loss on biological assets | - | 1,442 |
| Interest expense—long term loan | 80,790 | 80,884 |
| —bank overdraft | 1,733 | 2,779 |
| Interest income | (105,113) | (61,810) |
| Operating profit before working capital changes | 594,488 | 1,674,116 |
| (Increase)/decrease in inventories | (396,927) | 240,546 |
| Decrease/(increase) in trade and other receivables | 10,832 | (144,423) |
| Decrease in non-current staff receivables | - | 825 |
| Increase in trade and other payables | 263,688 | 263,891 |
| Decrease/(increase) in related party balances | 53,203 | (58,972) |
| Staff gratuity paid | (84,269) | (64,057) |
| Cash generated from operations | 441,015 | 1,911,926 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010

| | 2010 KShs'000 | 2009 KShs'000 |
|--------------------------------------|------------------|------------------|
| (b) Movement in loans | | |
| Balance at the beginning of the year | 3,241,578 | 2,677,988 |
| Foreign currency exchange loss | 444,841 | 837,522 |
| Repayments during the year | (308,066) | (273,932) |
| Balance at 30 June | 3,378,353 | 3,241,578 |
| (c) Interest paid on borrowings | | |
| Balance at the beginning of the year | 19,502 | 18,890 |
| Interest accrual | 80,790 | 80,884 |
| Foreign currency exchange loss | 6,335 | - |
| Accrued as at 30 June | (23,834) | (19,502) |
| Interest paid on long-term loan | 82,793 | 80,272 |
| Interest paid on overdraft | 1,733 | 2,779 |
| Interest paid on borrowings | 84,526 | 83,051 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

35. STATEMENT OF CASH FLOWS (continued)

| | 2010 KShs'000 | 2009 KShs'000 |
|---|------------------|------------------|
| (d) Purchase of property, plant and equipment | | |
| Additions (note 4) | 619,323 | 1,091,337 |
| Assets acquired under finance lease | (35,080) | - |
| | 584,243 | 1,091,337 |
| (e) Analysis of cash and cash equivalents | | |
| Short term deposits | 688,585 | 1,225,450 |
| Bank and cash balances | 263,194 | 286,512 |
| | 951,779 | 1,511,962 |

36. RETIREMENT BENEFITS OBLIGATIONS

The company, with effect from 1 July 2006, operates a defined contribution pension scheme for senior and supervisory staff. The scheme was previously a non-contributory defined benefits pension scheme. The scheme is administered independently by Alexander Forbes Financial Services (E.A) Limited, while its investments are managed by Stanbic Investments Services (East Africa) Limited. Contributions to this scheme during the year amounted to KShs 39,873,000 (2009 – KShs 34,565,000).

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 12 March 2010. 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 KShs 200 per employee per month. The company's contributions are charged to the statement of comprehensive income in the year to which they relate. Contributions to this scheme during the year amounted to KShs 2,146,000 (2009 – KShs 1,849,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

37. REVENUE ANALYSIS AND SEGMENTAL REPORTING

| | 2010 KShs'000 | 2009 KShs'000 |
|---|------------------|------------------|
| The Company revenues are derived from sales in the following markets; | | |
| Local market – Kenya | 8,609,731 | 7,677,396 |
| Regional market (East and Central Africa) | 798,980 | 423,981 |
| | 9,408,711 | 8,101,377 |

Sales to the regional market are done through depots 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. In addition, the local sales are 92% of the total revenue hence there is only one reportable segment.

38. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while optimization the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings (disclosed in notes 20), cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings. Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2010

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| Share capital | 450,000 | 450,000 |
| Share premium | 648,000 | 648,000 |
| Retained earnings | 3,341,441 | 3,723,005 |
| Equity | 4,439,441 | 4,821,005 |
| Total borrowings | 3,437,267 | 3,261,080 |
| Less: cash and cash equivalents (note 35) | (951,779) | (1,511,962) |
| Net debt | 2,485,448 | 1,749,118 |
| Total capital | 6,924,889 | 6,570,123 |
| Gearing ratio | 35.89% | 26.62% |

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The Company management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The amount that best represents the Company's maximum exposure to credit risk as at 30 June 2010 is made up as follows:

| | Fully performing KShs'000 | Past due KShs'000 | Impaired KShs'000 | Total KShs'000 |
|-----------------------------------|------------------------------|----------------------|----------------------|-------------------|
| Trade receivables | 165,712 | 216,171 | 222,691 | 604,574 |
| Other receivables and prepayments | 290,094 | - | 85,340 | 375,434 |
| Amount due from related party | - | 5,769 | - | 5,769 |
| Deposits | 57,349 | - | - | 57,349 |
| Cash and cash equivalents | 951,779 | - | - | 951,779 |

The customers under the fully performing category are paying their debts as they continue trading. The debt that is overdue is not impaired and continues to be paid. The Finance Department is actively following these debts.

Liquidity risk

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

The following table analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010**

| | Up to 1 month KShs'000 | 1 – 3 months KShs'000 | 3 - 12 months KShs'000 | 1 - 5 years KShs'000 | Over 5 years KShs'000 | Total KShs'000 |
|-----------------------------------|------------------------------|-----------------------------|------------------------------|----------------------------|-----------------------------|-------------------|
| At 30 June 2010 | | | | | | |
| Financial assets | | | | | | |
| Trade receivables | 201,675 | 180,208 | 222,691 | - | - | 604,574 |
| Other receivables and prepayments | 290,094 | - | 85,340 | - | - | 375,434 |
| Amount due from related party | - | - | 5,769 | - | - | 5,769 |
| Bank balances and cash | 263,194 | | | | | 263,194 |
| Deposits | - | 688,585 | - | - | 57,349 | 745,934 |
| Total financial assets | 754,963 | 868,793 | | | | 1,994,905 |

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk (continued)**

| | Up to 1 month KShs'000 | 1 - 3 Months KShs'000 | 3 - 12 months KShs'000 | 1 - 5 years KShs'000 | Over 5 years KShs'000 | Total KShs'000 |
|-----------------------------|------------------------------|-----------------------------|------------------------------|----------------------------|-----------------------------|-------------------|
| Financial liabilities | | | | | | |
| Trade and other payables | (1,271,045) | (114,650) | (76,223) | - | - | (1,461,918) |
| Borrowings: | | | | | | |
| Long term loan | - | - | (361,632) | (1,688,993) | (1,351,562) | (3,402,187) |
| Finance leases obligations | - | - | (13,100) | (21,980) | - | (35,080) |
| Total financial liabilities | (1,271,045) | (114,650) | (450,955) | (1,710,973) | (1,351,562) | (4,899,185) |
| Net liquidity gap | (516,082) | 754,143 | (137,155) | (1,710,973) | (1,294,213) | (2,904,280) |
| At 30 June 2009 | | | | | | |
| Total financial assets | 763,702 | 1,490,041 | 258,452 | - | 55,933 | 2,568,128 |
| Total financial liabilities | (759,938) | (374,741) | (377,713) | (1,473,299) | (1,473,619) | (4,459,310) |
| Net liquidity gap | 3,764 | 1,115,300 | (119,261) | (1,473,299) | (1,417,686) | (1,891,182) |

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

(i) Foreign exchange risk

The Company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

| | US\$ KShs'000 | US\$ KShs'000 | YEN KShs'000 | DKK KShs'000 |
|---|------------------|------------------|-----------------|-----------------|
| 2010 | | | | |
| Assets | | | | |
| Bank and cash balances | 40,545 | 79,074 | - | - |
| Trade receivables and other receivables | 54,178 | 80,789 | - | - |
| | 94,723 | 159,863 | - | - |
| Liabilities | | | | |
| Borrowings | - | - | 3,402,186 | - |
| Trade and other payables | - | 30,991 | 47,361 | 27,909 |
| | - | 30,991 | 3,449,547 | 27,909 |
| 2009 | | | | |
| Assets | | | | |
| Bank and cash balances | 53,563 | 330,555 | - | - |
| Trade receivables | 46,194 | 134,166 | - | - |
| | 99,757 | 464,721 | - | - |
| Liabilities | | | | |
| Borrowings | - | - | 3,261,080 | - |
| Trade and other payables | - | 41,987 | 82,761 | 33,109 |
| | - | 41,987 | 3,343,841 | 33,109 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

Foreign exchange risk – Appreciation/depreciation of Kenya Shilling against other currency by 1%

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the reporting date with all other variables held constant.

| | 2010 KShs'000 | | 2009 KShs'000 | |
|---|------------------|------------------|------------------|------------------|
| | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| Currency – Ugandan shillings | | | | |
| + 1% KShs movement | (947) | (663) | (536) | (375) |
| - 1% KShs movement | 947 | 663 | 536 | 375 |
| Currency - US dollars | | | | |
| + 1% KShs movement | 1,288 | 902 | 3,106 | 2,174 |
| - 1% KShs movement | (1,288) | (902) | (3,106) | (2,174) |
| Currency – YEN | | | | |
| + 1% KShs movement | (34,495) | (24,147) | (32,416) | (22,691) |
| - 1% KShs movement | 34,495 | 24,147 | 32,416 | 22,691 |

(ii) Cement price risk

The Company derives its income mainly from the sale of its cement and prices though fairly stable can be influenced by market forces.

The following sensitivity analysis shows how profit and equity would change if the cement price had been different with all other variables held constant.

| | 2010 KShs' 000 | | 2009 KShs' 000 | |
|---------------------|-------------------|------------------|-------------------|------------------|
| | Effect on profit | Effect on equity | Effect on profit | Effect on Equity |
| Cement price | | | | |
| + 1% movement | 94,087 | 65,860 | 81,014 | 56,710 |
| - 1% movement | (94,087) | (65,860) | (81,014) | (56,710) |

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****(iii) Interest rate risk**

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. To minimise the exposure, the Company has negotiated a fixed interest rate on the borrowings. The Company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Market risk (continued)****(iii) Interest rate risk (continued)**

Included in the table are the Company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

| | Up to 1 month KShs'000 | 1-3 months KShs'000 | 3-12 months KShs'000 | 1-5 years KShs'000 | Over 5 years KShs'000 | Total KShs'000 |
|------------------------|------------------------------|---------------------------|----------------------------|--------------------------|-----------------------------|-------------------|
| At 30 June 2010 | | | | | | |
| Assets | | | | | | |
| Cash and bank balances | 263,194 | - | - | - | - | 263,194 |
| Deposits | - | 688,585 | - | - | 57,349 | 745,934 |
| At 30 June 2009 | | | | | | |
| Assets | | | | | | |
| Cash and bank balances | 286,512 | - | - | - | - | 286,512 |
| Deposits | - | 1,225,450 | - | - | 55,933 | 1,281,383 |

Interest rate risks – Increase / decrease of 1% in net interest margin

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the reporting date with all other variables held constant.

| | 2010 KShs 000 | | 2009 KShs' 000 | |
|----------------|---------------------|---------------------|---------------------|---------------------|
| | Effect on profit | Effect on equity | Effect on profit | Effect on profit |
| + 1% Movement | 1,051 | 736 | 12,133 | 8,493 |
| - 1 % Movement | (1,051) | (736) | (12,133) | (8,493) |

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Market risk (continued)**

Fair values of financial instruments

The Company did not have financial instruments whose subsequent measurement is at fair value.

40. CONTINGENT LIABILITIES

| | 2010 KShs'000 | 2009 KShs'000 |
|------------------------------|------------------|------------------|
| Pending law suits | 198,781 | 177,918 |
| Guarantee of staff mortgages | 57,349 | 55,933 |
| | 256,130 | 233,851 |

Pending law suits relate to legal proceedings involving the Company for breach of contract and also for loss of business as a result of trucks repossessed. However, in the opinion of the Directors, no liability is likely to crystallise.

The deposits with Housing Finance Corporation Limited have been held as collateral for staff mortgages. The liability would only crystallise if a staff member defaults on their mortgage payments.

Tax Assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company covering corporate tax, employee taxes, withholding tax and VAT for the period from 2006 to 2010. KRA, in their letter dated 7 September 2009, has demanded KShs 1.98 billion as the principal tax. In the opinion of the directors, after taking appropriate tax advice, this amount is not payable and they have appealed to the Commissioner to review the assessment. The directors are of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

41. CAPITAL COMMITMENTS

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| Authorised by the directors but not contracted for | 2,039,812 | 3,823,670 |
| Authorised by the directors and contracted for | 769,858 | 1,018,000 |

42. OPERATING LEASE RENTALS

| | 2010 KShs'000 | 2009 KShs'000 |
|--|------------------|------------------|
| Not later than 1 year | 11,581 | 5,142 |
| Later than 1 year but not later than 2 years | 16,112 | 5,444 |
| | 27,693 | 10,586 |

NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended 30 June 2010****43. COUNTRY OF INCORPORATION**

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

44. COMPARATIVES

During the year the ended 30 June 2009, the Company recognised as a revaluation surplus the cost of motor vehicles acquired in July 2009. The financial statements for the year ended 30 June 2009 have been restated to correct this error. The effect of the restatement is as summarised below. There is no effect on the balances as at 1 July 2008.

| | 2009 KShs'000 |
|---|------------------|
| Decrease in revaluation surplus | (18,014) |
| Decrease in deferred tax charge | 5,404 |
| Decrease in total comprehensive income | (12,610) |
| Decrease in property, plant and equipment | (18,014) |
| Decrease in deferred tax liability | 5,404 |
| Decrease in asset revaluation reserve | (12,610) |

45. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (KShs '000).

SHAREHOLDING STRUCTURE 30.6.2010

| SHAREHOLDER | % HOLDING | NO. OF SHARES HELD |
|-------------------|------------|--------------------|
| NSSF | 27.0 | 24,300,000 |
| GOK | 25.3 | 22,799,505 |
| CEMENTIA(LAFARGE) | 14.6 | 13,180,442 |
| BCI | 14.6 | 13,144,442 |
| BAMBURI(NOMINESS) | 12.5 | 11,265,068 |
| OTHERS | 6.0 | 5,310,543 |
| TOTAL | 100 | 90,000,000 |

SHARE DISTRIBUTION SCHEDULE 30.6.2010

| Category | No. of Shareholders | Shares Held | Percentage |
|----------------|---------------------|-------------------|---------------|
| 1-1,000 | 670 | 245,113 | 0.27 |
| 1,001-5,000 | 224 | 547,165 | 0.61 |
| 5,001-10,000 | 62 | 459,944 | 0.51 |
| 10,001-50,000 | 53 | 1,214,767 | 1.35 |
| 50,001-100,000 | 12 | 860,486 | 0.96 |
| Over 100,000 | 11 | 86,672,525 | 96.30 |
| TOTAL | 1,032 | 90,000,000 | 100.00 |

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 78th Annual General Meeting of The East African Portland Cement Company Limited will be held at the Company's Club House, Athi River, on 18 November 2010 at 12.00 noon to transact the following business:-

ORDINARY BUSINESS

1. To read the Notice convening the meeting.
2. To confirm the minutes of the 77th Annual General Meeting held on 19 November 2009.
3. To receive the Chairman's Report.
4. To receive, consider and adopt the Financial Statements for the year ended 30 June 2010 together with the reports of the directors and auditors thereon.
5. To note that the Directors do not recommend the payment of a dividend in respect of the Financial Year ended 30 June 2010.
6. To re- 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 Hamish Keith
 - Mr Mark K ole Karbolo
 - (ii) In accordance with Article 83 of the Company's Articles of Association, Dr. Eng. Karanja Kibicho retires at this meeting and, being eligible, offers himself for re-election.
7. To approve the remuneration of the Directors as shown in the Financial Statements for the year ended 30 June 2010.
8. To note that Messrs Ernst & Young, who were appointed by the Controller and Auditor-General as authorized 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 for the ensuing financial year.
9. To transact any other business of an annual general meeting of which due notice has been received in accordance with the Company's Articles of Association.

SPECIAL BUSINESS

1. To consider and, if thought fit, to pass the following as an ordinary resolution;
"That the conversion of East African Portland Cement Company Limited's Branch in Uganda into a limited Company registered as "East African Portland Cement Company Uganda Limited" thus making it a wholly owned subsidiary of the Company be and is hereby ratified".

BY ORDER OF THE BOARD

J L G MAONGA
SECRETARY

5 October 2010

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.

PROXY FORM

For the year ended 30 June 2010

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 my/our behalf at the 78th Annual General Meeting of The East African Portland Cement Company Limited to be held on 18 November 2010 and at any adjournment thereof.

As witness my/our hand this day of 2010

Signed _____

Notes:

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. These proxies 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.



[illegible]



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