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CrownPaintsLtd

Content

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 60th Annual General Meeting of the Company will be held at the Sarova Panafric Hotel, Kenyatta Avenue, Nairobi on Tuesday, 20 June 2017 at 11.00 am. to conduct the following business:

ORDINARY BUSINESS

1 To read the notice convening the meeting.

2 To table the proxies and confirm the presence of a quorum.

3 To consider and, if approved, adopt the audited Financial Statements for the year ended 31 December 2016 together with the Directors' and Auditors' Reports thereon.

4 To declare a final dividend of KShs 0.60/= per ordinary share for the financial year ended 31 December 2016, and approve the closure of the Register of Members at 4.30 pm on 20 June 2017 for one day only.

5 To approve the Directors' remuneration paid in respect of the Financial Year ended 31 December 2016.

6 Directors:

a) Mr Francis Maina retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.

b) In accordance with the provisions of Section 769 of the Companies Act 2015, the following Directors, being members of the Board Audit and Risk Committee be elected individually to continue serving as members of the Committee:-

i) Mr Francis Maina
ii) Mr Stephen Oundo

7 To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the financial year ending 31 December 2017 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2017.

SPECIAL BUSINESS

8 Subject to clearance with the relevant authorities including the Registrar of Companies and the Capital Markets Authority, as applicable, to consider and, if thought fit, to pass resolutions a) and b) as Special Resolutions and c) as Ordinary Resolutions:-

a) Change of Name of the Company

"That the name of the Company be and is hereby changed from Crown Paints Kenya Limited to Crown Paints Kenya plc in compliance with Section 53 of the Companies Act, 2015"

b) Adoption of amended Articles of Association in line with the Companies Act, 2015

"That the regulations contained in the document now submitted to this meeting and, for the purpose of identification, initialled by the Chairman of the Company be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association thereof."

Notice of the Annual General Meeting (Continued)

c) Share Buy-Back

Subject to the shareholders passing the resolution adopting the new Articles of Association and in accordance with Part XVI of the Companies Act, 2015, the Company's new Articles of Association and any applicable regulations and or approvals, the Company be and is hereby authorised, to purchase ordinary shares in its share capital subject to the following:

i) the Company be and is hereby authorised to purchase a maximum of 10,677,150 ordinary shares representing up to 15% of the Company's current issued share capital as quoted on the Nairobi Securities Exchange (the NSE);
ii) such authority will remain in force until the day immediately preceding 18 months from the date of the authorisation or until revoked by a resolution passed at a general meeting of the shareholders;
iii) the minimum price to be paid by the Company for any such purchase of its shares shall be a price per share calculated as the prevailing arithmetic mean of the daily closing share price at the NSE over the preceding 365 days from the date of the Directors' resolution to effect such buy-back; and
iv) the maximum price to be paid by the Company for any such purchase of its shares shall be a price per share calculated as the prevailing arithmetic mean of the daily closing share price at the NSE over the preceding 365 days from the date of the Directors' resolution to effect such buy-back plus fifty percent (50%) of such prevailing arithmetic mean.

Further, subject to and following the passing of the resolution approving the share buy-back:

i) the Company be and is hereby authorised and empowered subject to the applicable laws to: (i) cancel the shares that have been bought back; or (ii) retain the shares that have been bought back in treasury for future distribution as dividend to the Company's shareholders and/or for resale on the NSE; and
ii) the Company Secretary be and is hereby authorised to make such filings and update any such records as may be required.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 6 May 2017

1. In accordance with section 298 of the Companies Act, 2015 every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. Proxy forms should be returned to The Registrar, Custody & Registrar Services Limited, 6th Floor Bruce House, Standard Street PO Box 8484, 00100 - Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof. A form of proxy is provided at the end of this report.

2. A copy of this notice, proxy form and Financial Statements are available on our website www.crownpaints.co.ke or a printed copy may be obtained from the Company's Head Office, Likoni Road, Industrial Area, Nairobi upon request.

Notice of the Annual General Meeting (Continued)

Explanatory Notes

Change of Name

The Companies Act, 2015 requires that limited companies which are also public companies have either the words "public limited company" or the abbreviation "plc" at the end of their name. We have therefore proposed that the abbreviation "plc" replaces the word "Limited" in the name of the Company so that it becomes "Crown Paints Kenya plc". Following this amendment, the Company will undertake to rebrand including on its letterhead and related materials.

Adoption of new Articles of Association

The Company's current Articles of Association were drafted in 1958 on the basis of Table A as set out in the now repealed Companies Act, 1948. Following the enactment of the Companies Act, 2015 several amendments are required to bring the Company's Articles of Association into compliance with the Companies Act, 2015. The Directors are of the view that this is an opportune time to modernise the Company's Articles of Association as well as bring them into compliance with the new Companies Act, 2015 and therefore a new set of Articles of Association are being proposed. These will be available for review on the Company's website at www.crownpaints.co.ke. A copy of the draft Articles of Association can also be inspected at the Company's head office at the following address: P.O. Box Number 78848 – 00507, Likoni Road, Industrial Area, Nairobi, Kenya.

Share Buy-Back

Section 447 of Part XVI of the Companies Act, 2015 now permits a limited company having a share capital to buy-back its shares from shareholders, provided that such shares are purchased from the Company's distributable profits or the proceeds of a fresh issue of shares made for the purpose of financing the purchase. The process is new in Kenya and as far as the Directors are aware, has not been undertaken previously by any company listed on the Nairobi Securities Exchange (the NSE), however, the Directors note that there may be several advantages to shareholders of the Company from a buy-back of shares. Specifically, a buy-back of shares by the Company is anticipated to:

a) permit the Company to offer the shareholders an alternative to dividends in the form of a capital distribution;
b) increase the average daily trading volume (ADTV) of the shares and provide liquidity in the shares benefiting all shareholders and the Company;
c) enable true price discovery of the value of the Company and reduce cash outflow from the company going forward without reducing the dividend per share (as there will be fewer shares in circulation);
d) create a more aggressive capital structure in the form of the Company's debt to equity ratio and effectively deliver a higher return on equity (ROE) which will be viewed as a positive feature for the Company in the marketplace; and
e) provide shareholders with the option of a tax-efficient cash distribution of earnings and enhance the Company's earnings per share (EPS) thereby benefiting the shareholders.

The Company is seeking authorisation from the shareholders to provide the Directors with the option to initiate a buy-back of its shares on the market. The Companies Act, 2015 requires that this authorisation should state a maximum number of shares that can be purchased, should have a minimum and maximum price attached thereto and should be subject to a date on which such authority will expire. In this respect, the Company is seeking authority to purchase up to a maximum of 10,677,150 ordinary shares representing 15% of the Company's current issued share capital as quoted on the NSE. The Company proposes to purchase the shares at a price that will include a minimum premium of 0% and a maximum premium of 50% to the prevailing arithmetic mean of the closing share price at the NSE over the preceding 365 days from the date of the Directors' resolution to effect such buy-back. The Company is seeking this authorisation from the date of approval of this resolution until the day immediately preceding 18 months from the date of the approval of this resolution.

Notice of the Annual General Meeting (Continued)

Subject to receipt of such authorisation, the Company may, upon a determination by the Directors, offer to buy its own shares on one or more occasions and the Directors will determine the number and price of the shares to be purchased by the Company on each occasion and the duration for which such offer shall remain open based on the Company's distributable profits.

Following any purchase of shares by the Company pursuant to the authority granted by the shareholder, the Company may cancel the shares that have been bought back or retain them in treasury for future distribution as dividend to the Company's shareholders and/or for resale on the NSE.

Share Register Periodic Report for March 2016

TOP 30 SHAREHOLDERS

Rank	Name	Residence	Total Shares	%
1	CROWN PAINTS AND BUILDING PRODUCTS LIMITED	LC	34,208,565	48.06%
2	BEAUMONT PROPERTIES LIMITED	FC	10,125,500	14.23%
3	BARCLAY HOLDINGS LIMITED	FC	9,702,000	13.63%
4	LANSBURY LIMITED	LC	4,169,778	5.86%
5	PAUL WANDERI NDUNGU	LI	862,342	1.21%
6	MAHENDRA DAHYABHAI PATEL	LI	672,060	0.94%
7	MAHENDRA FULCHAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI	LI	602,817	0.85%
8	CFCFS NOMINEES LIMITED A/C HRJC	LC	313,300	0.44%
9	KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH BABLA	LI	303,600	0.43%
10	STANBIC NOMINEES LTD A/C NR1030823	FC	287,100	0.40%
11	DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	LC	280,188	0.39%
12	CROWN PAINTS AND BUILDING PRODUCTS LTD	LC	253,800	0.36%
13	MINESH MULCHAND SHAH	LI	221,332	0.31%
14	SAVITABEN VELJI RAICHAND SHAH	LI	220,275	0.31%
15	ZAVERCHAND PUNJA WAREHOUSES LTD	LC	211,200	0.30%
16	JOHN OKUNA OGANGO	LI	171,000	0.24%
17	MINESH M. SHAH	LI	147,858	0.21%
18	BIJAL MULCHAND SHAH	LI	147,312	0.21%
19	MAHENDRA KUMAR MANILAL SHAH	LI	120,050	0.17%
20	NISHITKUMAR RAMNIKLAL SHAH	LI	114,900	0.16%
21	PRAFULKUMAR HEMRAJ SHAH	LI	113,740	0.16%
22	ABDULRASUL ISMAIL THAWER	FI	110,550	0.16%
23	SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	LI	99,000	0.14%
24	SHAZIQUE ENTERPRISES LIMITED	LC	94,710	0.13%
25	PARESH P UPADHYAY & HASMUKH A JOSHI	LI	89,100	0.13%
26	SURESHCHANDRA RAICHAND SHAH	LI	83,127	0.12%
27	SAROJBEN PRAFULKUMAR SHAH	LI	82,020	0.12%
28	SANDIP VELJI SHAH	LI	78,621	0.11%
29	RAJNIKANT NATHOOBHAI SHAH	LI	77,220	0.11%
30	SHAMSUDIN J. A. RAYANI & ROSINAKHANU S. RAYANI	LI	74,568	0.10%
	SHARES SELECTED		64,037,633	89.96%
	SHARES NOT SELECTED - 2,515 shareholders		7,143,367	10.04%
	SHARES ISSUED		71,181,000	100.00%
	TOTAL NUMBER OF CROWN PAINTS SHAREHOLDERS		2,545	
	NO. OF CROWN PAINTS SHAREHOLDERS AT THE CDSC		1,757	
	NO. OF CROWN PAINTS SHARES HELD AT THE CDSC		23,053,178	

Share Register Periodic Report for March 2016 (Continued)

DEMAT ANALYSIS			
	SHARES	%	HOLDERS
CDSC	23,053,178	32.39%	1,757
CERTIFICATED	48,127,822	67.61%	788
TOTALS	**71,181,000**	**100%**	**2,545**

ANALYSIS BY VOLUME			
VOLUME	**SHARES**	**%**	**HOLDERS**
1 - 500	177,478	0.25%	954
501 - 5000	2,501,642	3.51%	1,259
5001 - 10000	1,200,857	1.69%	164
10001 - 100000	3,941,756	5.54%	146
100001 - 1000000	5,153,424	7.24%	18
>1000000	58,205,843	81.77%	4
TOTALS	71,181,000	100.00%	2,545

ANALYSIS BY DOMICILE			
DOMICILE	**SHARES**	**%**	**HOLDERS**
FOREIGN COMPANIES	20,123,000	28.27%	5
FOREIGN INDIVIDUALS	373,755	0.53%	29
LOCAL COMPANIES	40,382,442	56.73%	180
LOCAL INDIVIDUALS	10,301,803	14.47%	2,331
TOTAL	**71,181,000**	**100.00%**	**2,545**

Board of Directors

PATRICK MWATI
Finance Director

FRANCIS MAINA
Non Executive Director

RAKESH RAO
Group Chief Executive Officer

Board of Directors

STEPHEN OUNDO
Non Executive Director

HUSSEIN RAMJI
Vice Chairman

Executive Directors

HUSSEIN RAMJI
Vice Chairman

RAKESH RAO
Group Chief Executive Officer

PATRICK MWATI
Finance Director

Chairman's Statement

2016, the year of drought and excessive heat. Kenya went through the real effects of global climate change.

During the year 2016, Crown Paints has continued to perform well, increasing market share by sales volumes and value in the region. Despite the challenges, our Group management has managed to take advantage of the opportunities that have arisen in the year 2016 to lead the drive to expand our Crown brand throughout the region, resulting in greater brand awareness and increased sales. The paint market in the region has also grown year on year due to the positive economic development of each of the member States. Crown is now well positioned to penetrate these markets further as the countries develop further.

The inability to achieve revenue targets by the regional governments (Kenya, Rwanda, Tanzania and Uganda) to match the public spending has been a major challenge, which resulted to the postponement of new projects and many public sectors workers unmet salary demands all this translating to reduce income of potential customers hence the level of business. Foreign currency fluctuations has also contributed to this lower levels of business. We have observed the public sector in Tanzania having to adapt to the new stringent policies of the new president. Uganda having to recover from budget deficits caused by the elections. Kenya has been suffering from the increasing levels of inflation, hence the reduced government spending. Also, administrative challenges have hindered the realization of the benefits of the ease of intra-regional trade.

With the new paradigm shift occurring in North America and Europe, Africa, especially East Africa has once again come into focus for business opportunities by individuals willing to invest. As the new companies come to invest, competition increases and more choices are available to the population, thereby forcing companies to improve their product standards, quality, pricing, company human resources amongst a few. Crown is aware of this and has positioned itself by partnering with other similar organizations in readiness for the developments.

As a Group, Crown continues to factor in its customer needs and their satisfaction as a priority while continuing to improve on its processes in order to cater for the environment and achieve a steady improvement of its results compared to the years before. Whilst new constraints appear yearly, many more new opportunities are presented to which Crown will always respond to, by developing new products and using innovative marketing ideas. The Group continuously upgrades its staff knowledge through training sessions to impart new ideas and methods (new financial standards updates, different sales techniques, uplifting service levels, health and safety environmental measures, Kaizen).

We look forward to 2017 and the years ahead, where there are many opportunities which will come to Crown, and we will enjoy making the most of these and hopefully we will all benefit.

In closing, I would wish to record my sincere appreciation and that of the board, first, to our esteemed loyal customers for their support. Second, to the employees, for their commitment which has made Crown the company it is today. Third, to you my fellow shareholders for your continued loyal support to Crown Paints and finally together with you the shareholders thank the Board members for their contribution and oversight during the year.

Tunasema "your happiness is our reward".

Mhamud Charania
Chairman
4th May 2017

Group Chief Executive Officer Statement

Group Chief Executive Officer's Statement

Dear Shareholders,

I am delighted to announce the annual results for Crown Paints Kenya Limited (CPKL) for the year 2016.

The Kenyan GDP is marginally higher than the previous year. It is estimated to be around 5.9% in 2016 against the 5.6% of year 2015. Manufacturing and construction growth had been the lowest in three years. Construction section growth was around 9.2% against the 13.61% of the previous year.

Kenya is a major market for the Crown Group. Uganda had a general election which has impacted the economy while the Tanzanian economy is witnessing pressure of changed policies and procedures under newly formed government.

Despite the above facts, Crown Group has achieved net sales value growth of 9.06% in year 2016. Gross Profit has increased from KSh 2.7 billion to KSh 2.9 billion. Stable exchange rate and controlled operating expenditure has resulted a substantial increase in Profit Before Tax (PBT). In 2016, PBT has increased to KSh 272 million from KSh 217 million of year 2015, it's a total increase of 25.5%. Financial performance of subsidiaries especially Tanzania and Rwanda has substantially improved.

We adopted a new regional growth strategy in 2016, wherein, we have created regional hubs across Tanzania, Uganda and Rwanda to better serve these markets. To do this, we have invested KSh 200 million in local manufacturing with satellite plants and local marketing and dealer networks. We now have local manufacturing plants based in Arusha, Mwanza and Dar es Salaam that allows us to turnaround customer orders quickly, deliver at a much lower cost and offer a wide choice of products in these markets. This strategy is working well for the company and subsidiaries are now seeing increased market share. We are the first company in our sector to adopt this strategy for regional expansion. The success of this approach can be seen in the fact that subsidiary companies have reduced their losses substantially in 2016.

The strength of the company's management was again recognized this year and you will be pleased to know that Crown Paints won in several categories at the COYA Awards including the prestigious Company of The Year 2016 Award which it won for the second time having won it last in 2014. This award recognizes excellence in management, operations and business performance. Organised by the Kenya Institute of Management, the COYA Awards have become an important benchmark for organizations in Kenya. Crown Paints was awarded for "facilitating an environment that encourages innovative practices for new idea generation, having governance structures that recognise the need for transparent accountability for the conduct of affairs, use of resources and results of the activities, ensuring implementation of strategies that encourage continual improvement, promoting a culture of excellence and sustainable longevity." Other award categories won by CPKL included Manager of the Year 2016; 2016 Winner – Leadership & Management Category; 2016 Winner - Customer Orientation and Marketing Category and 2016 Winner - Innovation, ICT and Knowledge Management Category.

An important aspect of our company excellence is customer orientation. We proactively track and study market trends to create new products and services. With the burgeoning middle class and greater international exposure, we have been seeing a trend whereby consumers want their homes and offices to be an extension of their personality and are increasingly looking for interesting finishes, effects and specific colours. We have responded to this trend by offering an extensive range of products and the widest range of colours with 6000 shades. We have installed over 350 Crown Colour Zone Dispensing Units at Crown outlets and showrooms across Kenya that can dispense a range of 6000 shades in paint colours. The showrooms across Kenya give customers an enhanced experience especially on the new and innovative finishes while also offering interior decorating consultation with our in-house experts.

To offer a wider range of textured finishes at a more competitive price, we commissioned a new plant for stone and texture finishes in Nairobi's Industrial Area. Furthermore, we also upgraded our existing manufacturing facilities in Nairobi which has allowed the company to offer a much wider range to customers, provide a faster turn-around time and has encouraged business efficiencies that have seen costs reduce by 20%. We also launched our eco-friendly range with our existing line of products in 2016 that include: Crown Luxury Matt Zero VOC Emulsion; Crown Permaplast Zero VOC Exterior Paint; Crown Silk Vinyl Zero VOC Emulsion; Crown Teflon™ Matt Zero VOC Emulsion; and Crown Teflon™ Permacote Exterior

Crown Paints IFTAR food donation.

Crown Paints (K) Limited CEO, Rakesh Rao addresses trainee painters at the paint factory in Industrial Area (Mogadishu road).

Crown Paints CEO, Rakesh Rao (centre), Japhet N. Koome (left), MBS HSC Nairobi County Commander and Nairobi County Commissioner of Police - Logistics, Aineah O Kaleb test two of the 665 umbrellas donated to Nairobi Traffic Police. This was out outside the Commander's office in Nairobi.

Mathira Constituency Mp. Hon. Peter Weru Kinyua (left), Crown Paints Products Development, Nilesh Gosavi participates in tree planting activity at the Gatundu South Primary School in Karatina.

Crown Paints CEO, Rakesh Rao (right) hands over a dummy cheque of KSH 1,106,000 to Kirsty Smith of David Sheldrick Wildlife Trust (left) assisted by Founder of Africans for Elephants, Akinyi Adongo (center).

Crown Paints CEO, Rakesh Rao (right) hands over a dummy cheque of KSH 1,106,000 to Kirsty Smith of David Sheldrick Wildlife Trust (left) assisted by Founder of Africans for Elephants, Akinyi Adongo (center).

Group Chief Executive Officer's Statement (cont.)

Matt. Crown Paints is the first company in the region to manufacture and offer these Zero VOC paints in Kenya in the range of emulsion paints previously mentioned.

You will be delighted to know that Crown Paints was ranked amongst the top 5 companies in Kenya as an excellent employer in the "Best Company to Work for Survey 2015" conducted by Deloitte. The survey measures companies on their ability to inspire, motivate and engage employees to achieve high employee satisfaction that contributes to high employee retention and productivity. This ranking is a humbling endorsement of our people practices that promote human capital development, empowerment and wellness while transforming organizational culture to cope with the rapidly evolving business environment.

CORPORATE SOCIAL RESPONSIBILITY

The environment was a major focus for Crown's CSR in 2016. Our commitment extends even to the products that we offer and as a step towards being more environmentally responsible, we launched Zero VOC (Volatile Organic Compounds) paints in East Africa. After doing intensive research on manufacturing of eco-friendly paints locally we now make and sell Zero VOC paints that have a non-threatening environmental impact due to their high bio-degradability and are also ideal for people who are particularly sensitive to paint fumes. They have no toxic emissions and are a value addition to the product range with no price increase. They are odourless, making them perfect for schools, hospitals and of course, homes.

We have partnered with the Africans for Elephants Initiative to help preserve our wildlife heritage and safeguard the livelihoods of people who depend on the tourism industry.

We also continue to train painters to enhance their skills and ability to use the new products and finishes in the market that allows them to attain better livelihoods.

FUTURE OUTLOOK

As you may be aware, Economists have cut down the growth projection for Kenya in 2017 in view of the approaching general election and capping of bank interest rates. The drought in the country will also impact growth and consumer spending. The construction and property sectors are projected to record lower growth due to these reasons. Therefore, we expect to face these market challenges in 2017 especially in Kenya. To offset these, we will focus more on the other regional markets to grow this year.

That said, we will continue to expand our market share in Kenya by introducing new and innovative product solutions, better customer experience and outreach into new market segments. We will continue to control costs and increase business efficiencies by optimizing the supply chain and improving working capital management. Despite the challenges, we have an optimistic outlook for 2017 and expect to continue with healthy growth and profitability to maximize shareholder return.

Finally, but most importantly, I extend my heartfelt thanks to my fellow directors, shareholders, employees, customers and partners for their continued and inspiring support towards creating more value for all stakeholders.

Rakesh K. Rao
Group Chief Executive Officer
4th May 2017

Corporate Governance

Introduction

Crown Paints Kenya Ltd is committed to the highest standards of Corporate Governance and business ethics and towards these the company has established systems to ensure that high standards are maintained at all levels. In addition to complying with the standards of the Capital Market Authority on Corporate Governance practices by public listed companies in Kenya, the company is committed to embed internal rules of engagement that support Corporate Governance. This internal rules are constituted in the employee code of business conduct to which each employee is committed to. The Board of Directors governs the company in a way that maximizes shareholder value and is in the best interest of the society.

Governing Body of Crown Paints Kenya Ltd

The supreme decision-making body of Crown Paints Kenya Ltd is the Annual General Meeting of Shareholders. The Board of Directors (the Board) is responsible for the management of Crown Paints Kenya Ltd. Other Crown Paints Kenya Ltd executives have an assisting and supporting role.

The Board of Directors

The Board comprises of 6 Directors, of whom 3 are Executive. The Board is collectively responsible to the company's shareholders for the long-term success of the company and for its overall strategic direction. It provides leadership in order to achieve the business objectives within the Company's system of internal controls and realize Shareholders' expectations.

Responsibilities

Whilst the Chairman and the Chief Executive Officer are responsible for the profitable operations of the company. Their roles are separate, with each having distinct and clearly defined duties and responsibilities. The Chairman is responsible for leadership of the board, for ensuring its effectiveness on all aspects of its role and for facilitating productive contributions of all directors. The Chairman also ensures that the interests of the company's shareholders are safeguarded and that there is effective communication with them.

The Chief Executive Officer has overall responsibility for the day to day running of the business of the company and provides leadership to facilitate successful planning and execution of the company objectives and strategies as agreed upon by the board.

The Non-Executive Directors (including the chairman) are considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company. They have a responsibility to ensure that the business strategy and operations are fully discussed and critically reviewed. They have no service contracts with the Company but have letters of appointment which stipulates the terms of their appointment.

Composition of the board

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. They are eligible for re-election. The current composition of the Board is given on page 19.

Corporate Governance (cont.)

Board Meetings

The Board of Directors meets every quarter to monitor the company's financial performance, plan strategy and review performance. Specific reviews are also undertaken of management performance, operational issues and future planning as and when needed.

Board Committees

There are two main committees that meet regularly under the terms of reference set by the Board.

a) Audit Committee
The audit committee chaired by the Non Executive Director and with attendance by invitation, the Group Chief Executive Officer and other key personnel review the effectiveness of internal controls and discuss the audit reports.

b) Finance Committee
This committee chaired by a Non Executive Director, receives reports from management and reviews Company's financial performance against targets, ensures compliance and issues guidelines where necessary.

The Board appoints other committees as and when required.

Communication with Shareholders

The Company is committed to communicating openly with its shareholders on its performance and addressing any other areas of concern. This is achieved through the distribution of the company's Annual Report, holding of the Annual General Meeting where the shareholders have the opportunity to ask questions and freely interact with the Board: Also the company releases notices in the national press of its half-yearly and annual results in compliance with statutory requirements. On a day to day basis the shareholders have direct access to the company's Secretary and Share Registrar who respond to their queries on various issues.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services is disclosed in Note 10, page 72 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Corporate Information

PRINCIPAL PLACE OF BUSINESS
Mogadishu Road
P.O. Box 78084 - 00507
Nairobi.

REGISTERED OFFICE
LR No. 209/5792
Mogadishu Road
P.O. Box 78084 - 00507
Nairobi.

BANKERS
Kenya Commercial Bank Limited
P.O. Box 311 – 00567
Nairobi.

Commercial Bank of Africa
P. O. Box 30437 – 00100
Nairobi.

Barclays Bank of Kenya Limited
P.O. Box 46661 - 00100
Nairobi.

Co-operative Bank of Kenya
P.O. Box 17928 - 00500
Nairobi.

SOLICITORS
Kairu Mbuthia & Kiingati,
Advocates, Commissioners for Oaths
and Notaries Public,
Paresia Centre, 1st Floor, Ngong Road,
P.O. Box 6574 - 00100
Nairobi.

SECRETARY
Conrad Nyukuri
Axis Kenya,
Empress Plaza Ring Road Parklands/Jalaram
Road Westlands
P.O. Box 764 - 00606
Nairobi.

REGISTRARS
Custody and Registrar Services Ltd
6th Floor, Bruce House
Standard Street
P.O. Box 8484 - 00100
Nairobi.

AUDITORS
Ernst & Young LLP
Kenya-Re Towers, Upperhill
P.O. Box 44286 - 00100
Nairobi.

Directors Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sale of paints, adhesives, decorating sundries, PVA emulsion and alkyd resins.

2. GROUP RESULTS

The results for the year are set out on page 28.

3. COMPANY RESULTS

The results for the year are set out on page 32.

4. DIVIDENDS

Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 0.60 (2015: KShs 0.60) per share amounting to KShs 42,708,600 (2015: KShs 42,708,600).

5. FINANCIAL STATEMENTS

Except as indicated in Note 34 to the financial statements, the directors are not aware of any circumstances, which would render the values attributed to assets and liabilities in the financial statements of the Group and the Company not as stated in the financial statements.

6. RESERVES

The reserves of the Group and the Company are set out in Note 13.

7. DIRECTORS

The directors who served during the year and to the date of this report were:-

Mhamud Charania	-	Chairman (Non-executive)
Rakesh K. Rao	-	Chief Executive Officer
Francis G.K. Maina	-	Non-executive
Patrick M. Mwati	-	Executive
Hussein H.R.J. Charania	-	Executive
Stephen B. Oundo	-	Non-executive - Appointed 29 April 2016
Grace J. Kemei	-	Non-executive - Resigned 31 January 2017

Directors Report (cont.)

8. AUDITORS

The company's auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

9. GOING CONCERN

The directors have made an assessment of the company's and subsidiaries' ability to continue as a going concern and are satisfied that they have the resources to continue in business for the foreseeable future. Further, the directors are not aware of any material uncertainties that may cast significant doubt on the ability of the entities to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

By Order of the Board

Conrad Nyukuri
Secretary
4th May 2017

Statement of Directors' Responsibilities on the Consolidated Financial Statements

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's and its subsidiaries' ability to continue as a going concern as disclosed in note 34, the financial statements of the subsidiaries have been prepared on going concern basis on the assumption that the parent company will continue providing financial support necessary to meet their financial obligations. The subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements of the subsidiaries which have been consolidated in these financial statements.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 4th May 2017 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick M. Mwati
Finance Director
4th May 2017

Report of the independent auditors to the shareholders of Crown Paints Kenya Limited and subsidiaries

Building a better working world

Ernst & Young LLP
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Opinion

We have audited the accompanying consolidated and separate financial statements of Crown Paints Kenya Limited (the "company") and its subsidiaries (together, the "group") set out on pages 27 to 96, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Crown Paints Kenya Limited as at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.*

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 34 to the financial statements, which explains the status of the company's subsidiaries. As indicated in the note, the subsidiaries, which contribute significantly to the performance of the group, incurred losses during the year ended 31 December 2016. These conditions, along with other matters as set forth in note 34, indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Report of the independent auditors to the shareholders of Crown Paints Kenya Limited and subsidiaries (continued)

In addition to the matters described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Impairment consideration of amounts owing from and investment in the subsidiaries</td></tr>
<tr><td>As disclosed in note 10 to the financial statements, the company has amounts due from its subsidiaries totaling KShs 608.7 million.

We focused on these amounts due from subsidiaries due to their significance as discussed below:

• The outstanding amounts are material to the financial statements of the company.
• The subsidiaries are loss making and rely on the parent company for provision of working capital.

We also focussed on the adequacy of the disclosures of related party balances in Note 10 to the financial statements, which are significant to the understanding of the amounts due from subsidiaries.</td><td>We made enquiries of the related party relationships including changes from the prior period and obtained a schedule of the relevant transactions and balances.

We reviewed the accounting records for any unusual transactions with related parties, checked that the transactions were supported by appropriate documentation and that the agreements in place are up to date.

We assessed the recoverability of the amounts due from the subsidiaries by checking the subsequent receipts and also reviewed the repayments projections by management.

We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances.

We obtained confirmations on the outstanding balances from subsidiaries.

We reviewed the adequacy of the company's disclosures in note 10 in relation to related party transactions and balances.</td></tr>
</table>

Report of the independent auditors to the shareholders of Crown Paints Kenya Limited and subsidiaries (continued)

Status of the subsidiaries	
The company's subsidiaries have been making losses in the past and the summary of financial performance and financial position of the subsidiaries is further disclosed in note 34 to the financial statements. Given that significant judgement has been made by management in assessing the going concern of the subsidiaries and the effect on the group, and the fact that the disclosures are important to the users' understanding of the financial statements we have considered this a key audit matter. In addition, the results of the subsidiaries are material to the Group's financial position and performance.	We reviewed management's assessment of the subsidiaries' ability to continue as going concerns, including the process management followed to make its assessment, the assumptions on which the assessment is based and management's plan for future actions. We reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due. We assessed the rationale and feasibility of plans to further capitalize the subsidiaries by converting some of the amounts due from them to equity as disclosed in note 34 and that the plans have been approved by those charged with governance. We assessed whether the disclosures in the financial statements on going concern are complete and adequate.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this report, and, Chairman's Statement, Group Chief Executive Officers Statement and Corporate Governance, which are expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Report of the independent auditors to the shareholders of Crown Paints Kenya Limited and subsidiaries (continued)

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting processes.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

Report of the independent auditors to the shareholders of Crown Paints Kenya Limited and subsidiaries (continued)

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

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

(iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Churchill Atinda, Practising Certificate No. 1425

Nairobi, Kenya
24th May 2017

*In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, the company's financial statements and this report have been prepared in accordance with Sections 147 to 163 of the repealed Companies Act, as if that repeal had not taken effect.

Partners: G G Karuu, J K Cheboror, A S Gilani, C O Atinda, H C Wasike, G Gitahi, M M Kimoni, C W Mbogo, A K Gichuhi, L K Gathungu, A M Muthusi, J M Ngonga, F N M Kamau, N M Muhoya
A member firm of Ernst & Young Global Limited.

Consolidated statement of financial position as at 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,214,145	1,177,776
Intangible assets	4	36,635	45,703
Prepaid leases on land	5	7,964	8,229
Deferred tax	15	18,540	13,933
		1,277,284	**1,245,641**
CURRENT ASSETS			
Inventories	8	1,503,554	1,615,261
Trade and other receivables	9	1,468,849	1,260,264
Amounts due from related companies	10(i)	475,673	309,514
Cash and cash equivalents	29	205,632	108,468
Current tax recoverable	11	128,037	-
		3,781,745	3,293,507
TOTAL ASSETS		**5,059,029**	**4,539,148**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	355,905	355,905
Reserves	13	1,206,211	996,877
		1,562,116	1,352,782
NON-CURRENT LIABILITIES			
Bank loan	17	246,703	209,903
		246,703	**209,903**
CURRENT LIABILITIES			
Bank overdraft	16	134,374	160,840
Bank loans	17	467,889	305,755
Short term notes	18	507,403	650,989
Amounts due to related companies	10(ii)	299,095	216,910
Trade and other payables	19	1,840,289	1,589,205
Current tax payable	11	1,160	52,764
		3,250,210	2,976,463
TOTAL EQUITY AND LIABILITIES		**5,059,029**	**4,539,148**

The financial statements were approved by the Board of Directors on 4th May 2017 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
REVENUE	**20**	**7,347,557**	**6,737,108**
COST OF SALES	**21**	**(4,401,444)**	**(3,956,493)**
GROSS PROFIT		2,946,113	2,780,615
OTHER INCOME	22	260,293	233,954
		3,206,406	3,014,569
EXPENSES:-			
Administration and establishment	23	(1,695,616)	(1,684,167)
Selling and distribution	24	(906,472)	(958,172)
Finance costs	25	(209,726)	(155,533)
Revaluation loss on property, plant & equipment	3(b)	(122,549)	-
		(2,934,363)	(2,797,872)
PROFIT BEFORE TAX	27	272,043	216,697
TAX EXPENSE	11	(140,247)	(185,949)
PROFIT FOR THE YEAR		131,796	30,748
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		50,810	28,956
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		50,810	28,956
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain of property, plant & equipment	3(b)	72,600	-
Deferred income tax on revaluation	15	(21,780)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		50,820	-
TOTAL OTHER COMPREHENSIVE INCOME		101,630	28,956
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**233,426**	**59,704**
ATTRIBUTABLE TO:			
Owners of the parent		233,426	59,704
Non- Controlling interest		-	-
		233,426	**59,704**
Basic and diluted earnings per share (KShs)	**28**	**1.85**	**0.43**

Consolidated statement of changes in equity for the year ended 31 December 2016

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation Reserve KShs'000	Foreign Currency translation reserve KShs'000	Retained Earnings KShs'000	Total equity KShs'000
At 1 January 2015		**118,635**	**80,174**	**101,693**	**9,831**	**1,036,998**	**1,347,331**
Profit for the year		-	-	-	-	30,748	30,748
Other comprehensive income		-	-	-	28,956	-	28,956
Total comprehensive income		-	-	-	28,956	30,748	59,704
Bonus issue - 2 shares for every 1 held		237,270	-	-		(237,270)	-
Transfer of excess depreciation-2015		-	-	(13,890)	-	13,890	-
Deferred tax on excess depreciation		-	-	-	-	(12,731)	(12,731)
2014 final dividend paid	14	-	-	-	-	(41,522)	(41,522)
At 31 December 2015		**355,905**	**80,174**	**87,803**	**38,787**	**790,113**	**1,352,782**
At 1 January 2016		355,905	80,174	87,803	38,787	790,113	1,352,782
Profit for the year		-	-	-	-	131,796	131,796
Other comprehensive income		-	-	50,820	50,810	-	101,630
Total comprehensive Income		-	-	50,820	50,810	131,796	233,426
Transfer of excess depreciation-2016		-	-	(9,053)	-	9,053	-
Deferred tax on excess depreciation		-	-	-	-	18,617	18,617
2015 final dividend paid	14	-	-	-	-	(42,709)	(42,709)
At 31 December 2016		**355,905**	**80,174**	**129,570**	**89,597**	**906,870**	**1,562,116**

Consolidated Statement of cash flows for the year ended 31 December 2016

OPERATING ACTIVITIES	Note	2016 KShs'000	2015 KShs'000
Profit before tax		272,043	216,697
Adjustments for:-			
Depreciation of property, plant and equipment	3	157,020	142,782
Revaluation loss on property, plant and equipment	3(b)	122,549	-
Amortisation of intangible assets	4	15,144	13,325
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		109,063	134,818
Unrealised foreign exchange gain		(78,629)	(24,812)
Interest expense	25	209,726	155,533
Interest income	22	(1,728)	(2,183)
Allowance for bad debts	24	111,404	98,985
Bad debts written off	24	191	5,334
Leave accrual write back		(10,920)	-
Inventory write-down	8	34,533	40,774
Reversals of inventory write down	8	(29,633)	(803)
(Gain)/loss on disposal of property, plant and equipment	22& 23	(1,190)	389
Operating profit before working capital changes		909,838	781,104
Increase in trade and other receivables		(320,179)	(165,594)
Decrease/(increase) in inventories		106,807	(370,192)
Increase in trade and other payables		262,002	423,909
Increase in amounts due from related party balances		(166,158)	(90,654)
Increase in amounts due to related party balances		82,185	70,292
Cash generated from operations		874,495	648,865
Income tax paid	11	(327,658)	(143,170)
Interest received	22	1,728	2,183
Interest paid	25	(218,253)	(168,352)
Net cash generated from operating activities		330,312	339,526
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(246,084)	(379,675)
Purchase of intangible assets	4	(6,685)	(18,097)
Proceeds on sale of property, plant and equipment		5,977	1,316
Net cash used in investing activities		(246,792)	(396,456)
FINANCING ACTIVITIES			
Proceeds from bank loan		1,501,265	1,465,019
Repayments of bank loan		(1,302,331)	(1,213,465)
Proceeds from short term notes		2,089,591	2,961,939
Repayments of short term notes		(2,233,177)	(2,921,203)
Dividends paid on ordinary shares	14	(42,709)	(41,522)
Net cash generated from financing activities		12,639	250,768
Net increase in cash and cash equivalents		96,159	193,838
Cash and cash equivalents at the beginning of the year		(52,372)	(172,132)
Effect of exchange rate changes on cash & cash equivalents		27,471	(74,078)
Cash and cash equivalents at the end of the year	29	71,258	(52,372)

Company statement of financial position as at 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3	1,117,386	1,083,162
Intangible assets	4	29,758	36,846
Prepaid leases on land	5	7,964	8,229
Investments in subsidiary companies	6	881,095	48,512
Deposit for shares	7	-	204,028
Deferred tax	15	18,540	13,933
		2,054,743	1,394,710
CURRENT ASSETS			
Inventories	8	1,271,827	1,359,048
Trade and other receivables	9	1,034,067	883,293
Amounts due from related parties	10(i)	1,084,373	1,428,411
Current tax recoverable	11	112,868	-
Cash and cash equivalents	29	157,642	78,947
		3,660,777	3,749,699
TOTAL ASSETS		**5,715,520**	**5,144,409**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	355,905	355,905
Reserves	13	2,019,528	1,724,312
		2,375,433	2,080,217
NON CURRENT LIABILITIES			
Bank loan	17	246,703	209,903
		246,703	209,903
CURRENT LIABILITIES			
Bank overdraft	16	134,374	160,838
Bank loans	17	467,889	305,755
Short term notes	18	507,403	650,989
Trade and other payables	19	1,679,407	1,415,624
Amounts due to related parties	10(ii)	304,311	261,332
Current tax payable	11	-	59,751
		3,093,384	2,854,289
TOTAL EQUITY AND LIABILITIES		**5,715,520**	**5,144,409**

The financial statements were approved by the Board of Directors on 4th May 2017 and signed on its behalf by: -

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Company statement of profit and loss and other comprehensive income for the year ended 31 December 2016

	Note	2016 KShs'000	2015 KShs'000
REVENUE	20	6,726,368	6,385,224
COST OF SALES	21	(4,092,158)	(3,836,429)
GROSS PROFIT		2,634,210	2,548,795
OTHER INCOME	22	173,463	213,279
		2,807,673	2,762,074
EXPENSES: -			
Administration and establishment	23	(1,348,045)	(1,357,339)
Selling and distribution	24	(720,093)	(792,614)
Finance costs	25	(209,726)	(155,533)
Revaluation loss on property, plant and equipment	3(b)	(122,549)	-
		(2,400,413)	(2,305,486)
PROFIT BEFORE TAX	27	407,260	456,588
TAX EXPENSE	11	(138,772)	(185,109)
PROFIT FOR THE YEAR		268,488	271,479
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Revaluation gain of property, plant & equipment		72,600	-
Deferred income tax on revaluation		(21,780)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		50,820	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		319,308	271,479
Basic and diluted earnings per share (KShs)	28	3.77	3.81

Company statement of changes in equity for the year ended 31 December 2016

	Note	Share capital KShs'000	Share Premium KShs'000	Revaluation Reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2015		118,635	80,174	142,069	1,522,113	1,862,991
Profit for the year		-	-	-	271,479	271,479
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-		271,479	271,479
Bonus issue 2 shares for every 1 share held		237,270			(237,270)	-
Transfer of excess depreciation- 2015				(13,890)	13,890	-
Deferred tax on excess depreciation				-	(12,731)	(12,731)
2014 final dividend paid	14	-	-	-	(41,522)	(41,522)
At 31 December 2015		355,905	80,174	128,179	1,515,959	2,080,217
At 1 January 2016		355,905	80,174	128,179	1,515,959	2,080,217
Profit for the year		-	-	-	268,488	268,488
Other comprehensive income		-	-	50,820	-	50,820
Total comprehensive income		-	-	50,820	268,488	319,308
Transfer of excess depreciation- 2016		-	-	(9,053)	9,053	-
Deferred tax on excess depreciation				-	18,617	18,617
2015 final dividend paid	14	-	-	-	(42,709)	(42,709)
At 31 December 2016		355,905	80,174	169,946	1,769,408	2,375,433

Company statement of cash flows for the year ended 31 December 2016

OPERATING ACTIVITIES	Note	2016 KShs'000	2015 KShs'000
Profit before tax		407,260	456,588
Adjustments for:-			
Depreciation on property, plant and equipment	3	131,923	116,824
Revaluation loss on property, plant and equipment	3(b)	122,549	-
Amortisation of intangible assets	4	13,067	12,319
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange loss		2,746	23,266
Unrealised exchange gain		(14,388)	(21,774)
Interest expense	25	209,726	155,533
Interest income	22	(1,716)	(2,181)
Allowance for bad debts-trade receivables	24	74,653	73,806
Bad debts written off	24	191	1,050
Leave accrual write-back	22	(10,920)	-
Inventory write-downs	8	32,751	38,369
Reversals of inventory write-down	8	(29,374)	(655)
(Gain) / loss on disposal of property, plant and equipment	22 & 23	(1,142)	750
Operating profit before working capital changes		937,591	854,160
(Increase) / decrease in trade and other receivables		(225,619)	(16,724)
Decrease / (Increase) in inventories		83,844	(286,190)
Increase in trade and other payables		274,701	351,956
Decrease / (Increase) in amounts due from related parties		(321,544)	(444,242)
Decrease in amounts due to related parties		79,979	71,783
Cash generated from operations		828,952	530,743
Income tax paid	11	(319,161)	(137,521)
Interest received	22	1,716	2,181
Interest paid		(218,253)	(168,352)
Net cash generated from /(used in) operating activities		293,254	227,051
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(212,123)	(344,060)
Purchase of intangible assets	4	(5,979)	(9,573)
Proceeds from sale of property, plant and equipment		5,696	23
Net cash used in investing activities		(212,406)	(353,610)
FINANCING ACTIVITIES			
Proceeds from bank loan		1,501,265	1,465,019
Repayments of bank loan		(1,302,331)	(1,213,465)
Proceeds from short term notes		2,089,591	2,961,939
Repayments of short term notes		(2,233,177)	(2,921,203)
Dividends paid on ordinary shares	14	(42,709)	(41,522)
Net cash generated from financing activities		12,639	250,768
Net increase in cash and cash equivalents		93,487	124,208
Cash and cash equivalents at the beginning of the year		(81,891)	(204,608)
Effect of exchange rate changes on cash and cash equivalents		11,672	(1,492)
Cash and cash equivalents at the end of the year	**29**	**23,268**	**(81,891)**

Notes to the financial statements for the year ended 31 December 2016

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The Group applied for the first time certain standards, improvements and amendments, which are effective for annual periods beginning on or after 1 January 2016. The nature and the impact of each new standard and amendment are described below:

- Amendments to IFRS 10, IFRS 12, and IAS 28 Investment Entities;
- Amendment to IAS 16 and IAS 41 Agriculture: Bearer Plants Amendment to IAS 27: Equity Method in Separate Financial Statements
- Amendment to IFRS 14 Regulatory Deferral Accounts
- Amendment to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Annual Improvements 2012-2014 Cycle
  - IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7: Financial Instruments - Servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements
  - IAS 19: Employee Benefits
  - IAS 34: Interim Financial Reporting
- IAS 1: Disclosure Initiative

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments did not have any impact on the Group.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. These amendments did not have any impact on the Group's financial statements as it continued to use the cost method for its investment in subsidiaries.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.
Since the Group is an existing IFRS preparer, this standard would not apply.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, AND INTERPRETATIONS (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively. These amendments are not expected to have any impact on the Group as it does not have such arrangements.

Annual Improvements 2012-2014 Cycle

These improvements are effective for the accounting period beginning on or after 1 January 2016, earlier application is permitted and must be disclosed. These amendments did not have an impact on the Company and Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. The amendment did not have an impact on the Company and Group.

IFRS 7 Financial Instruments: Disclosures

(i) *Servicing contracts*
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) *Applicability of the amendments to IFRS 7 to condensed interim financial statements*
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments did not have any impact on the Company and Group.

Standards, improvements and amendments issued but not yet effective

The standards improvements and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group is in the process of assessing the impact of the standard. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is still in the process of determining the impact of the new requirements of the standard.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.
Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Group has no existing hedge relationships that qualify for hedge accounting under IFRS 9.

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is in the business of manufacture and sale of paints and adhesives.

(a) Sale of goods
Contracts with customers in which sale of paint is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.
In applying IFRS 15, the Group is considering the following:

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

(i) Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group will reassess the impact of deferred revenue recognition due to variable consideration under IFRS 15 once it is adopted.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

(ii) Warranty obligations
The Group does not provide warranties to its customers.

(iii) Loyalty points programme
The Group does not currently have in place a loyalty programme offered to its customers.

(b) Rendering of services
The Group carries out painting services for its customers through apply and supply department. These services are sold either on their own in contracts with the customers. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

IFRS 16 Leases
The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features
- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The Company plans to adopt the new standard on the required date.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

Standards, improvements and amendments issued but not yet effective (continued)

IFRS 16 Leases (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively with early adoption permitted. In December 2016, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting. The Group does not have investments in associates or joint ventures thus no impact in the financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

The overlay approach

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9. The amendment is effective from 1 January 2018. The amendments will not have an impact on the Group as it does not have insurance contracts.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

Standards, improvements and amendments issued but not yet effective (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (continued)

IAS 7 Statement of Cash flows

The amendments to IAS 7 Statement of Cash flows require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are intended to provide information to help investors better understand changes in company's debt.

The new standard is effective for annual periods beginning on or after 1 January 2017 but early adoption is permitted. Entities are not required to provide comparative information for preceding periods. The Group is currently evaluating the impact.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

The new standard is effective for annual periods beginning on or after 1 January 2017 but early adoption is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Group is assessing the impact of the standard, if any.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. This is effective for annual periods beginning on or after 1 January 2018. The Group is currently evaluating the impact.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

Standards, improvements and amendments issued but not yet effective (continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The amendment has no effect on the Group.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendment is effective from 1 January 2018. This amendment is not expected to have an impact on the Group as it does not have investment properties.

Annual Improvements 2014-2016 Cycle

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018 and is not expected to have any impact on the Group.

IAS 28 Investments in Associates and Joint Ventures

The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

Standards, improvements and amendments issued but not yet effective (continued)

Annual Improvements 2014-2016 Cycle (continued)

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The amendment is not expected to have any impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively.

These amendments are not expected to have any impact on the Company and Group.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements of the Group have been prepared on a historical cost basis except for certain plant, property and equipment that have been measured at fair value. The consolidated financial statements of the Group are presented in Kenya Shillings and all values are rounded to the nearest thousand, except when otherwise indicated.

For the purpose of reporting under the Kenya Companies Act, 2015, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss is represented by the statement of profit or loss and other comprehensive income.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
A listing of the subsidiaries in the Group is provided in Note 6.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

  When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

  - The contractual arrangement with the other vote holders of the investee
  - Rights arising from other contractual arrangements
  - The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

b) Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

c) Foreign currency transactions

The consolidated financial statements are presented in Kenya Shillings, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Kenya shillings at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes, discounts, rebates or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in other income in profit or loss.

Rental income
Income arising from operating leases on building and machinery is accounted for on a straight line basis over the lease terms and is included in other income in the statement of comprehensive income due to its operating nature.

e) Taxation

Current income tax
Current income tax assets and liabilities for the current period are measured at the amounts 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, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised outside profit or loss is recognized outside profit or loss.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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, when 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 for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

e) Taxation (continued)

Deferred tax (continued)

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

- when 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 utilized.

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 future 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 profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in 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 tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

- 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 taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES **(CONTINUED)**

f) Property, plant and equipment

All property, plant and equipment are initially recognized at cost. Such cost includes the purchase price, directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating, the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequently, all property and equipment except land, are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed approximately once every 5 years, to ensure that the fair value of the revalued asset does not differ materially from its carrying amount.

Any increase in an asset's carrying amount as a result of a revaluation is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case, the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Land is stated at cost less any accumulated impairment losses.

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off carrying values of the assets to their residual values over their expected useful lives. The annual depreciation rates in use are as follows:

Building s 2%
Plant and machinery 8% - 10%
Fixtures and fittings 12½%
Motor vehicles 20% - 25%
Computers and equipment 20%

An item of property, plant and equipment and any significant part initially recognized is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 when the asset is derecognised.
The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) 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, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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 finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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.

Upfront payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. Borrowing costs capitalized during the year ended 31 December 2016 amounts to KShs 8.5 Million (2015: 12.8 million). The borrowing costs capitalised relate to specific loan acquired for the construction of the Kisumu factory.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight line basis over their useful economic lives from the date they available for use, up to a maximum of five years. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset, 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 is recognised in profit or loss in an expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Group does not have any intangible assets with indefinite useful lives.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal.

Gains or losses arising from derecognition 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.

The impairment policy on non-financial assets is discussed under Note 2(n).

j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

i) Financial assets

At initial recognition, the Group 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. Directors determine 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.

Financial assets are recognised in the Group's statement of financial position when the Group becomes a party to contractual provisions of the instrument.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Group's financial assets include cash and cash equivalents, deposit for shares trade and other receivables, and amounts due from related parties.

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 Group commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of the financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees of costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss. An estimate is made of impaired receivables based on review of all outstanding amounts at year-end. The losses arising from impairment are recognised in profit or loss as part of selling and distribution expenses.
Bad debts are written off after all efforts of recovery have been exhausted. Loans and receivables category includes cash and cash equivalents, deposit for shares, amounts due from related companies, trade and other receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the group's consolidated statement of financial position when:

- the rights to receive cash flows from the asset have expired;; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;
  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments – initial recognition and subsequent measurement (continued)

ii) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income (recorded in other income in profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

iii) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, bank overdrafts, short term notes and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:
Trade payables and amounts due to related parties
Trade payables and amounts due to related parties are stated at amortised cost using the effective interest rate method.

Loans and borrowings
Interest bearing loans, overdrafts and short term notes are recorded at the proceeds received, net of direct costs. Finance charges, including the premium payable on settlement or redemption, are accounted for on the accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

Derecognition
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 from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments – initial recognition and subsequent measurement (continued)

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

k) Fair value of assets and liabilities

The Group measures property, plant and equipment, at fair value at each reporting date. The group has no financial instruments or derivatives that were measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to Note 31.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials
Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business.

Finished goods and work-in-progress
Cost is determined on a weighted average basis and comprises of cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

m) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss, except for property, plant and equipment previously revalued with the revaluation taken to OCI. For such property, plant and equipment, the impairment is recognised in OCI up to the amount of any previous revaluation.

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. 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. In determining fair value less costs of disposal, recent market conditions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

n) Cash and cash equivalents

The Group considers cash at banks and on hand and short-term deposits with a maturity of 90 days or less from the date of acquisition, as cash and cash equivalents. The carrying amounts of cash equivalents approximate the fair value due to the short term nature thereof.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at banks and on hand, and short-term deposits, net of outstanding bank overdrafts.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

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.

p) Employee benefits

Defined contributions provident fund
The Group operates a defined contributions post-employment provident fund for eligible employees. The fund is funded by contributions from the employees and the Group. The assets of the fund are held and administered independently of the Group's assets.

Past service costs are recognised immediately in profit or loss, unless the changes to the provident fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Statutory pension scheme
The Group also makes contributions to the statutory defined contribution schemes in the four countries where operations are based. Contributions to defined contribution schemes are recognised as an expense in profit or loss as they fall due.

Leave
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.

Bonus
An accrual is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal and constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

q) 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 by the shareholders in the Annual General Meeting.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have significant effect on the amounts recognised in the consolidated financial statements:

Allowances for obsolete inventories

Directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, directors make judgment as to whether the inventory item can be used as an input in production or is in saleable condition. Refer to Note 8 for disclosure on the obsolete inventory.

Impairment of financial instruments

The Group reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable. Refer to Note 9 for disclosure on the impaired receivables.

Operating Lease Commitments–Group as Lessor

The Group has entered into commercial property leases on some of its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Refer to Note 30 for disclosure on the lease commitments.

(ii) Estimates and assumptions

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

Useful lives of property, plant and equipment

The company reviews the estimated useful lives, depreciation method and residual values of property, plant and equipment at the end of each reporting period. In reviewing the useful lives of property, plant and equipment, the company considers the remaining period over which an asset is expected to be available for use. Management also looks at the number of production or similar units expected to be obtained from the property, plant and equipment. Judgment and assumptions are required in estimating the remaining useful period and estimates of the number of production or similar units expected to be obtained from the property, plant and equipment.

Further details on property, plant and equipment are given in Notes 1 (g) and 3.

Revaluation of certain classes of property, plant and equipment

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. The Group's leasehold buildings, plant, and machinery, motor vehicles, fixtures, fittings and equipment were revalued on 31 December 2016. The assets were valued on the basis market comparable approach and depreciated replacement cost approach by independent valuers, Lead Realtors Limited.

Further details on property, plant and equipment are given in Note 1 (g) and 3.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Significant accounting judgements, estimates and assumptions (continued)

Intangible assets

Critical estimates are made by directors in determining the useful lives 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. Further details on intangible assets are given in Note 4.

Impairment losses

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Refer to Notes 3, 4 and 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the Group considers the following indications:

a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
d) the carrying amount of the net assets of the entity is more than its market capitalisation.
e) evidence is available of obsolescence or physical damage of an asset.
f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Notes to the financial statements for the year ended 31 December 2016 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Significant accounting judgements, estimates and assumptions (continued)

Contingent liabilities

As disclosed in Note 30 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

s) Investments in subsidiaries

Investments in subsidiaries are carried in the Company's separate statement of financial position at cost less provisions for impairment losses. Where in the opinion of directors, there has been impairment in the value of the investment; the loss is recognised as an expense in the period in which the impairment is recognised.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2016

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2016	32,152	456,851	408,159	237,356	729,932	272,439	2,136,889
Additions	-	63,552	34,971	37,032	95,356	23,700	254,611
Transfer (to)/from WIP	-	180,700	91,739	-	-	(272,439)	-
Disposals	-	-	(1,308)	(7,752)	(2,408)	-	(11,468)
Elimination of accumulated depreciation on revaluation	-	(103,343)	(246,113)	(161,885)	(466,133)	-	(977,474)
Revaluation adjustment	-	12,241	(22,174)	68,253	(108,269)	-	(49,949)
Exchange differences	-	-	(2,189)	(2,772)	(5,223)	-	(10,184)
At 31 December 2016	**32,152**	**610,001**	**263,085**	**170,232**	**243,255**	**23,700**	**1,342,425**
Accumulated depreciation							
At 1 January 2016	-	90,589	285,241	158,740	424,541	-	959,111
Charge for the year	-	12,754	27,151	37,897	79,218	-	157,020
Elimination on revaluation	-	(103,343)	(246,113)	(161,885)	(466,133)		(977,474)
Eliminated on disposals	-	-	-	(6,616)	(63)	-	(6,679)
Exchange differences	-	-	(903)	(1,342)	(1,453)	-	(3,698)
At 31 December 2016	**-**	**-**	**65,376**	**26,794**	**36,110**	**-**	**128,280**
Net carrying Amount	32,152	610,001	197,709	143,438	207,145	23,700	1,214,145

If all assets, except freehold land and work in progress were measured using the cost model, their carrying amounts would be as follows:

	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Furniture, and fittings KShs'000	Total KShs'000
Net carrying amount	**449,832**	**237,149**	**84,920**	**299,952**	**1,071,852**

* Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Kisumu. Work-in-progress is not depreciated until the assets are completed and brought into use.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2015

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2015	25,528	456,986	396,159	206,568	638,819	37,529	1,761,589
Additions	6,120	1,772	14,753	41,112	88,293	240,444	392,494
Transfer (to)/from WIP	504	**(1,907)	-	-	6,780	(5,377)	-
Disposals	-	-	-	(7,368)	-	-	(7,368)
Exchange differences	-	-	(2,754)	(2,958)	(3,959)	(157)	(9,828)
At 31 December 2015	**32,152**	**456,851**	**408,158**	**237,354**	**729,933**	**272,439**	**2,136,887**
Accumulated depreciation							
At 1 January 2015	-	81,462	263,157	126,343	353,863	-	824,825
Charge for the year	-	9,127	22,943	39,091	71,621	-	142,782
Eliminated on disposals	-	-	-	(5,664)	-	-	(5,664)
Exchange differences	-	-	(859)	(1,030)	(943)	-	(2,832)
At 31 December 2015	-	90,589	285,241	158,740	424,541	-	959,111
Carrying Amount	**32,152**	**366,262**	**122,917**	**78,614**	**305,392**	**272,439**	**1,177,776**

If all assets, except freehold land were measured using the cost model, the carrying amounts would be as follows:

	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Furniture, and fittings KShs'000	Total KShs'000
Cost	252,262	343,080	212,729	739,258	1,547,329
Accumulated depreciation	(49,596)	(254,206)	(152,582)	(425,704)	(882,088)
	202,666	88,874	60,147	313,554	665,241

*Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Kisumu. Work-in-progress is not depreciated until the assets are completed and brought into use.

** Amount related to work in progress which had been booked under buildings but no depreciation had been charged.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) COMPANY – Year ended 31 December 2016

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2016	32,152	456,851	324,881	196,190	652,633	272,439	1,935,146
Additions	-	63,552	28,328	31,108	76,240	21,422	220,650
Disposals	-	-	(1,308)	(7,286)	(2,393)	-	(10,987)
Transfer to/from WIP	-	180,700	91,739	-	-	(272,439)	-
Elimination of accumulated depreciation on revaluation		(103,343)	(246,113)	(161,885)	(466,133)	-	(977,474)
Revaluation adjustment	-	12,241	(22,174)	68,253	(108,269)	-	(49,949)
At 31 December 2016	**32,152**	**610,001**	**175,353**	**126,380**	**152,078**	**21,422**	**1,117,386**
Accumulated depreciation							
At 1 January 2016	-	90,589	223,855	138,548	398,991	-	851,983
Charge for the year	-	12,754	22,258	29,708	67,203	-	131,923
Elimination on revaluation	-	(103,343)	(246,113)	(161,885)	(466,133)	-	(977,474)
Eliminated on Disposals	-	-	-	(6,371)	(61)	-	(6,432)
At 31 December 2016	-	-	-	-	-	-	-
Carrying Amount							
At 31 December 2016	**32,152**	**610,001**	**175,353**	**126,380**	**152,078**	**21,422**	**1,117,386**

If all assets, except freehold land and work-in-progress were measured using the cost model, the carrying amounts would be as follows:

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Fittings and equipment KShs'000	Work in Progress KShs'000	Total KShs'000
Carrying amount	-	449,832	171,769	58,127	263,844	-	943,571

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) COMPANY – Year ended 31 December 2015

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2015	25,528	456,986	311,865	165,727	585,415	35,381	1,580,902
Additions	6,120	1,772	13,016	33,098	67,218	235,655	356,879
Disposals	-	-	-	(2,635)	-	-	(2,635)
Transfer (to)/from WIP	504	(1,907)*	-	-	-	1,403	-
At 31 December 2015	32,152	456,851	324,881	196,190	652,633	272,439	1,935,146
Accumulated depreciation							
At 1 January 2015	-	81,463	208,135	110,673	336,751	-	737,022
Charge for the year	-	9,127	15,720	29,737	62,240	-	116,824
Eliminated on Disposals	-	-	-	(1,862)	-	-	(1,862)
At 31 December 2015	-	90,590	223,855	138,548	398,991	-	851,984
Carrying Amount							
At 31 December 2015	**32,152**	**366,261**	**101,026**	**57,642**	**253,642**	**272,439**	**1,083,162**

If all assets, except freehold land and work in progress were measured using the cost model, the carrying amounts would be as follows:

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Fittings and equipment KShs'000	Work in Progress KShs'000	Total KShs'000
Cost	-	250,625	246,787	141,103	594,740	-	1,233,255
Accumulated depreciation	-	(46,350)	(188,044)	(126,234)	(401,323)	-	(761,951)
	-	**204,275**	**58,743**	**14,869**	**193,417**	**-**	**471,304**

* Amount related to work in progress which had been booked under buildings but no depreciation had been charged.

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) COMPANY – Year ended 31 December 2016 (continued)

All assets, except freehold land and work in progress, were revalued on 31 December 2016. The revaluation amounts have been incorporated in these financial statements.

The basis of valuation was: -

Leasehold buildings	-	Open market value
Plant and machinery	-	Open market value
Motor vehicles	-	Open market value
Fixtures, fittings and equipment	-	Open market value

The methods used to determine the fair value was the comparable approach, which compares the sales of similar items in the market and depreciated replacement cost, which takes into account the current cost of replacement or reproduction of an asset.
The valuation was undertaken by an independent professional valuer, Lead Realtors Limited. The revaluation surplus was credited to revaluation reserve while the revaluation deficit was charged to profit or loss.
The Kenya Commercial Bank Limited and Commercial Bank of Africa Limited facilities (Refer to Note 17) are secured by debentures of KShs 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479.
Borrowing costs capitalized during the year ended 31 December 2016 amounted to KShs 8.5 Million (2015: KShs 12.8 million)
The table below shows the valuation of the company's assets except land and work in progress, which are carried at cost, and the determination of the revaluation surplus/ (deficit).

	Buildings	**Plant and machinery**	**Motor vehicles**	**Fixtures, fittings and equipment**	**Total**
	KShs 000	**KShs 000**	**KShs 000**	**KShs 000**	**KShs 000**
Net carrying before revaluation	597,760	197,527	58,127	260,347	1,113,761
Revalued amount 31 December 2016	610,001	175,353	126,380	152,078	1,063,812
Revaluation surplus/(loss)	**12,241**	**(22,174)**	**68,253**	**(108,269)**	**(49,949)**
Accounted for as follows:					
Revaluation surplus from prior years	**-**	**7,894**	**-**	**-**	**7,894**
Profit or loss	-	(14,280)	-	(108,269)	(122,549)
Other comprehensive income	12,241	(7,894)	68,253	-	72,600
Revaluation surplus/(loss)	**12,241**	**(22,174)**	**68,253**	**(108,269)**	**(49,949)**

Notes to the financial statements for the year ended 31 December 2016 (continued)

(c) Impact of the enactment of the land registration act no. 3 2012 On the company's land holding status

The current Constitution, enacted on 27 August 2010, introduced significant changes in the landholding by non-citizens. The Constitution no longer allows foreigners and foreign bodies to own freehold land and leasehold land in excess of 99 years. Freehold land and leasehold land of more than 99 years owned by foreigners and foreign bodies automatically becomes 99 year leases upon enactment of the required legislation under Articles 65(4) of the constitution. These changes in the landholding took effect on 2 May 2012 upon the enactment of the Land Registration Act No. 3 of 2012.

As per the definition of Articles 65(3) of the constitution, the company is a non-citizen and hence the status of its freehold land changes to 99 years lease.

Under International Accounting standards No. 17 (IAS 17), a 99 year lease qualifies for a finance lease classification if the lessor transfers substantially all the risks and rewards incidental to the ownership of the land to the Company.

Accordingly, the new 99 year lease would qualify as a finance lease. The Company currently accounts for its land previously classified as freehold in a similar manner to finance leases.

The Company is waiting for the National Land Commission to issue guidelines that will operationalise the provisions of the constitution and the revised land laws. The Company will continue to reassess the impact of the revised land laws to the financial statements as the guidelines are issued.

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cost				
At 1 January	131,620	113,523	120,524	110,951
Additions	6,685	18,097	5,979	9,573
Exchange difference	(784)	-	-	-
At 31 December	137,521	131,620	126,503	120,524
Amortisation				
At 1 January	85,918	72,610	83,678	71,359
Charge for the year	15,144	13,325	13,067	12,319
Exchange difference	(176)	(18)	-	-
At 31 December	100,886	85,917	96,745	83,678
Carrying Amount	36,635	45,703	29,758	36,846

Intangible assets relate to computer software in use by the Group. The intangible assets have an estimated useful life of 5 years.

There were no borrowing costs capitalized during the year ended 31 December 2016 (2015: Nil)
No intangible assets have been pledged as security (2015:Nil)

Notes to the financial statements for the year ended 31 December 2016 (continued)

5. PREPAID LEASES

	GROUP & COMPANY	
	2016	**2015**
	KShs'000	**KShs'000**
Cost		
At 1 January and December	13,000	13,000
Accumulated amortisation		
At 1 January	4,771	4,506
Charge for the year	265	265
At 31 December	5,036	4,771
Carrying Amount	7,964	8,229

The prepaid operating leases relate to amounts that the company has paid for the leased land on which its factories and head offices stand. The prepaid leases on land consist of two leases as follows:

i) Mogadishu Road factory - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2016 was 30 years.

ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2016 was 30 years.

Notes to the financial statements for the year ended 31 December 2016 (continued)

6. INVESTMENT IN SUBSIDIARIES

Information about subsidiaries
The consolidated financial statements of the Group include investment in subsidiaries as disclosed below. These investments are unquoted and held at cost less impairment loss:

Details of investment	Country of incorporation	Activity	Holdings %	2016 KShs'000	2015 KShs'000
Crown Paints Allied Industries Limited (2016-44,800 ordinary shares of KShs 1,000 each, share premium – 34,800 shares of KShs 1,500 each. 2015- 10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of adhesives	100	97,000	10,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) (2016- 505,000 ordinary shares of KShs 292 each, Share premium - 500,000 shares of KShs 436. 2015- 5,000 ordinary shares of KShs 400 each)	Uganda	Selling of auto paints and decorative products	100	365,372	2,000
Crown Paints Tanzania Limited (2016- 42,800 ordinary shares of KShs 4,671 each, share premium 32,800 shares @ KShs 6,660. 2015- 1,905 ordinary shares of KShs 5,426 each)	Tanzania	Selling of auto paints and decorative products	100	417,430	35,219
Crown Paints Rwanda Limited (1,000 ordinary shares of KShs 1,293 each)	Rwanda	Selling of auto paints and decorative products	100	1,293	1,293
				881,095	**48,512**

During the year ended 31 December 2016, an amount of KShs 665,582,000, made up of KShs 283,372,093 and KShs 382,210,454 owing from Regal Paints Uganda Limited and Crown Paints Tanzania Limited, respectively, was capitalised. Additional capitalisation of KShs 167 million was made from amount outstanding as deposit for shares as per note 7 below.

Notes to the financial statements for the year ended 31 December 2016 (continued)

7. DEPOSIT FOR SHARES

	COMPANY	
	2016	2015
	KShs'000	KShs'000
Regal Paints Uganda Limited	-	80,000
Crown Paints Allied Industries Limited	-	124,028
	-	204,028

This relates to deposit made in Regal Paints Uganda Limited and capitalisation of amounts due from Crown Paints Allied Industries Limited pending allotment of shares. During the year ended 31 December 2016, KShs 167 million was capitalised made up of KShs 80 million for Regal Paints Uganda Limited and KShs 87 million for Crown Paints Allied Industries Limited. The balance of KShs 37 million was paid back to Crown Paints Kenya Limited.

8. INVENTORIES

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Finished goods and packaging materials	767,084	801,938	590,949	605,240
Raw materials	584,596	580,945	524,097	519,353
Goods in transit	203,055	270,805	203,055	270,805
Work In progress	16,549	24,403	14,297	20,844
	1,571,284	1,678,091	1,332,398	1,416,242
Inventories write-down to NRV	(67,730)	(62,830)	(60,571)	(57,194)
	1,503,554	**1,615,261**	**1,271,827**	**1,359,048**

The amount of inventories write-down reversed during the year was KShs. 29,633,000 (2015: KShs 803,000) for the Group and KShs. 29,374,000 (2015: KShs 655,000) for the Company, for inventories carried at net realisable value. This is recognised in cost of sales.

See below for the movements in the inventories write-down:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
At the beginning of the year	62,830	22,859	57,194	19,481
Provision for the year	34,533	40,774	32,751	38,368
Reversals for write down	(29,633)	(803)	(29,374)	(655)
	67,730	**62,830**	**60,571**	**57,194**

Notes to the financial statements for the year ended 31 December 2016 (continued)

9. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Trade receivables	1,334,039	1,105,057	945,518	769,660
Other receivables	60,521	61,383	24,380	28,183
Prepayments	74,289	93,824	64,169	85,450
	1,468,849	**1,260,264**	**1,034,067**	**883,293**

The average credit period on sales of finished goods is 30 days. Other receivables consist of staff loans, staff floats and deposits with suppliers. Staff loans are issued to staff to purchase motor vehicles at an interest rate of 10% pegged on 91 day treasury bill as prescribed by the Commissioner of Income Tax, for a period not exceeding 36 months. The staff loans are secured against the log books. Staff floats and deposits with suppliers are made in the ordinary course of business and are non-interest bearing. They are for a period not exceeding two months.

Prepayments were made in the ordinary course of business with regard to insurance premiums and computer software licences.

As at 31 December 2016, Group trade receivables with initial value of KShs 327,196,000 (2015: KShs 266,395,000) were fully provided for. The Company trade receivables with initial value of KShs 246,694,000 (2015: KShs 215,743,000) were fully provided for.

Trade and other receivables are carried net of provision for bad and doubtful debts. The movement in the provision for bad and doubtful debts is as set out below:

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
At beginning	266,395	245,147	215,743	218,157
Charge for the year (Note 24)	111,404	98,985	74,653	73,806
Used during the year (write-off)	(4,602)	(2,018)	-	(1,213)
Recoveries in the year (Note 22)	(46,001)	(75,719)	(43,702)	(75,007)
	327,196	**266,395**	**246,694**	**215,743**
Ageing analysis of trade receivables:				
Less than 60 days (neither past due nor impaired)	832,595	820,568	671,713	667,861
61 days to 90 days	112,599	101,566	54,398	60,107
Over 90 days	716,041	449,318	466,101	257,435
	1,661,235	1,371,452	1,192,212	985,403
Impaired	(327,196)	(266,395)	(246,694)	(215,743)
Total	**1,334,039**	**1,105,057**	**945,518**	**769,660**

Notes to the financial statements for the year ended 31 December 2016 (continued)

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables are non-interest bearing and are generally on 30 days credit terms. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Ageing analysis for other receivables:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Less than 60 days (neither past due nor impaired)	23,947	9,257	2,200	5,014
61 days to 90 days	2,699	1,753	915	1,689
Over 90 days	33,875	50,373	21,265	21,480
	60,521	61,383	24,380	28,183
Impaired	-	-	-	-
Total	**60,521**	**61,383**	**24,380**	**28,183**

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48% of the Company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 13.63% of the Company's shares. Crown Paints and Building Products Limited is a wholly owned subsidiary of Barclay Holdings Limited. Thus, the ultimate parent Company for Crown Paints Kenya Limited is Barclay Holdings Limited. The remaining 38.31% of the shares are widely held through the Nairobi Securities Exchange. Crown Paints Allied Industries Limited, Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited – Uganda), Crown Paints Rwanda Limited and Crown Paints Tanzania Limited are wholly owned subsidiaries of the Company.

The following transactions were carried out with related parties:

(i) Outstanding balances arising from sale of goods and services rendered:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Receivables from related companies:				
Crown Paints and Building Products Limited	457,395	291,236	457,395	291,236
Regal Paints Uganda Limited	-	-	208,360	468,120
Crown Paints Allied Industries Limited	-	-	466	573
Crown Paints Rwanda Limited	-	-	196,775	140,710
Crown Paints Tanzania Limited	-	-	203,099	509,494
Border Properties Limited	18,278	18,278	18,278	18,278
	475,673	309,514	1,084,373	1,428,411
Ageing analysis				
Less than 60 days (neither past due nor impaired)	58,050	36,126	52,885	82,570
61 days to 90 days	12,121	6,835	15,312	25,365
Over 90 days	405,502	266,553	1,016,176	1,320,476
Impaired	-	-	-	-
Neither past due nor impaired	**475,673**	**309,514**	**1,084,373**	**1,428,411**

Notes to the financial statements for the year ended 31 December 2016 (continued)

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(ii) Payables to related companies:				
Crown Paints Allied Industries Limited	-	-	9,330	46,712
Daxian Limited	285,173	214,620	285,173	214,620
Border Properties Limited	4,114	2,290	-	-
Crown Paints and Building Products Limited	9,808	-	9,808	-
	299,095	**216,910**	**304,311**	**261,332**

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	1022	581
Crown Paints Rwanda Limited	-	-	138,573	126,568
Regal Paints Uganda Limited	-	-	181,255	206,613
Crown Paints Tanzania Limited	-	-	182,666	204,220
Crown Paints and Building Products Limited	706	707	706	707
Purchase of goods				
Crown Paints Allied Industries Limited	-	-	39,998	44,564
Crown Paints Tanzania Limited	3,161	-	11,259	-
Crown Paints Rwanda Limited	1,323	-	-	-
Services rendered				
Daxian Limited	86,363	85,469	86,363	85,469
Crown Paints and Building Products Limited	28,945	14,098	28,945	14,098

Daxian Limited is a wholly owned subsidiary of the ultimate parent Barclay Holdings Limited.

Border Properties Limited is related parties by virtue of common directorship.

(iv) Key management personnel compensation

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Short term employee benefits	152,318	160,826	152,318	160,826
Defined contribution plan	3,559	4,416	3,559	4,416
	155,877	**165,242**	**155,877**	**165,242**

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(v) Directors' remuneration				
Fees for services as directors	9,904	9,694	9,904	9,694
Other emoluments (included in key management compensation above)	108,925	100,826	108,925	100,826
	118,829	**110,520**	**118,829**	**110,520**
Loans to related parties				
Key management	828	3,727	828	3,727
(vi) Short term note due to related parties				
Crown Paints & Building Products Limited	79,602	46,976	79,602	46,976
Directors	130,527	113,127	130,527	113,127
Daxian Limited	-	23,029	-	23,029
	210,129	**183,132**	**210,129**	**183,132**

Key management personnel comprise heads of departments and senior managers of the Group.
Terms and conditions of transactions with related parties
Amounts due from and due to related parties are non interest bearing and current. The loans to key management and directors are issued to purchase motor vehicles at an interest rate of 10% for a period not exceeding 36 months. The loans are secured against the log books. The other amounts due to or from related parties are not secured.

During the year ended 31 December 2016, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2015: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes to the financial statements for the year ended 31 December 2016 (continued)

	GROUP		COMPANY	
	2016	2015	2016	2015
11. TAXATION	KShs'000	KShs'000	KShs'000	KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	52,764	(21,605)	59,751	(19,427)
Charge for the year	148,017	217,539	146,542	216,699
Paid during the year	(327,658)	(143,170)	(319,161)	(137,521)
Current tax (recoverable) / payable	**(126,877)**	**52,764**	**(112,868)**	**59,751**
The amount has been presented in the statement of financial position as follows;				
Current tax payable	1,160	52,764	-	59,751
Current tax recoverable	(128,037)	-	112,868	-
Net amount	**126,877**	**52,764**	**112,868**	**59,751**
STATEMENT OF COMPREHENSIVE INCOME				
Current tax at 30 % on the taxable profit for the year	148,017	217,539	146,542	216,699
Deferred tax credit (note 15)	(7,770)	(31,590)	(7,770)	(31,590)
	140,247	**185,949**	**138,772**	**185,109**
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	272,043	216,697	407,260	456,588
Tax at applicable rate of 30%	81,613	65,009	122,178	136,976
Tax effect on items not eligible for tax purposes	14,380	49,352	14,380	49,352
Minimum tax liability- Tanzania	1,475	840	-	-
Unrecognised deferred tax assets on tax losses in subsidiaries	40,565	71,967	-	-
Under/(over) provision in previous year	2,214	(1,219)	2,214	(1,219)
	140,247	**185,949**	**138,772**	**185,109**
Tax effect on items not eligible for tax purposes can be summarised as follows;				
Depreciation	6,105	-	6,105	-
Amortization on leasehold land	80	80	80	80
Legal fees	104	159	104	159
Directors expenses	1,767	929	1,767	929
Bad debts written off	57	316	57	316
Donations	235	243	235	243
Sponsorship	165	2,044	165	2,044
Fines & penalties	5	43,178	5	43,178
School fees	2,057	1,926	2,057	1,926
Corporate social responsibility	575	534	575	534
Pension scheme administration costs	696	317	696	317
Excess pension contribution	2,534	2,045	2,534	2,045
Realised exchange loss	-	(2,662)	-	(2,662)
Operating costs- disallowable	-	213	-	213
Subscriptions	-	30	-	30
	14,380	**49,352**	**14,380**	**49,352**

Notes to the financial statements for the year ended 31 December 2016 (continued)

12. SHARE CAPITAL

	GROUP & COMPANY	
	2016	2015
	KShs'000	KShs'000
Authorised:		
71,181,000 ordinary shares of KShs.5 each		
(2015: 71,181,000 ordinary shares of KShs.5 each)	355,905	355,905
Issued and fully paid:		
71,181,000 (2015: 71,181,000) ordinary shares of KShs.5 each	355,905	355,905
At 31 December	355,905	355,905

13. RESERVES

		GROUP & COMPANY		
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	129,570	87,803	169,946	128,179
Foreign currency translation reserve	89,597	38,787*	-	-
Retained earnings	906,870	790,113	1,769,408	1,515,959
	1,206,211	**996,877**	**2,019,528**	**1,724,312**

*The amount has been restated through re-classification from the retained earnings for amount totalling KShs 16.9 million which relates to deferred tax on excess depreciation. The amount had been recorded as a credit in the account instead of a debit.

The share premium arose from the issue of 8,630,000 ordinary shares to the public in 1992. Any excess of the cash received from shareholders over the ordinary share nominal amount is recorded in the share premium.

The revaluation reserve represents the surplus on the revaluation of property, plant and equipment, net of deferred income tax. Movements in the revaluation surplus are shown on the statement of changes in equity. The revaluation surplus is non-distributable.

The foreign currency translation reserve arose on translation differences of foreign subsidiaries balances from their functional currencies to the presentation currency. The foreign currency translation reserve is non-distributable.

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the Company.

Notes to the financial statements for the year ended 31 December 2016 (continued)

14. DIVIDENDS

	GROUP & COMPANY 2016 KShs'000	2015 KShs'000
Dividend paid		
Final dividend for 2015 KShs. 0.60 per share (2014: KShs. 1.75 per share)	42,709	41,522
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares KShs 0.60 per share (2015: KShs 0.60 per share)	42,709	42,709

(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) Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.

Notes to the financial statements for the year ended 31 December 2016 (continued)

15. DEFERRED TAX (ASSET)/ LIABILITY

Movements in deferred tax during the year were as follows:

Year ended 31 December 2016	Balance at 1 January	Profit or Loss	Equity	Other comprehensive income	Balance at 31 December
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Accelerated capital allowances	46,933	10,620	-	-	57,543
Unrealised exchange loss	(6,980)	6,156	-	-	(824)
Unrealised exchange gain	6,532	(2,216)	-	-	4,316
Revaluation reserve	-	-	-	21,780	57,518
Deferred tax on excess depreciation	54,355	-	(18,617)	-	18,617
Allowance for doubtful debts	(64,722)	(9,285)	-	-	(74,007)
Provisions for staff leave	(14,015)	(6,600)	-	-	(20,615)
Provision for bonus accrual	(11,400)	1,521	-	-	(9,879)
Provision for obsolete inventories	(17,158)	(1,013)	-	-	(18,171)
Provision for rebates	(7,478)	(6,953)	-	-	(14,431)
	(13,933)	**(7,770)**	**(18,617)**	**21,780**	**(18,540)**
Year ended 31 December 2015					
Accelerated capital allowances	57,778	(10,845)	-	-	46,933
Unrealised exchange loss	(2,662)	(4,318)	-	-	(6,980)
Unrealised exchange gain		6,532		-	6,532
Deferred tax on excess depreciation	41,624	-	12,731	-	54,355
Allowance for doubtful debts	(65,444)	722	-	-	(64,722)
Provisions for staff leave	(12,131)	(1,885)	-	-	(14,016)
Provision for bonus accrual	-	(11,400)	-	-	(11,400)
Provision for obsolete inventories	(5,649)	(11,508)		-	(17,157)
Provision for rebates	(8,590)	1,112	-	-	(7,478)
	4,926	**(31,590)**	**12,731**	**-**	**(13,933)**

No provision has been made for a deferred tax asset relating to the subsidiaries amounting KShs 206,193,537 (2015: KShs 165,628,537) because it is not expected that the companies will have taxable profits in the near future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to 797,960,000 (2015: KShs 499,655,875) and can be carried forward for a maximum period of 10 years and 5 years in accordance with Kenyan and Rwandan tax laws, respectively, and indefinitely for Tanzania and Uganda.

Notes to the financial statements for the year ended 31 December 2016 (continued)

16. BANK OVERDRAFT

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Bank overdraft	134,374	160,840	134,374	160,838

The bank overdraft facility is to the extent of: Kenya Commercial Bank Limited (KCB) - KShs 200 million and USD 200,000 and Commercial Bank of Africa (CBA) - KShs 110 million and a further extension of KShs 50million that applies inter changeably between post import finance facility and bank overdraft. The KCB and CBA facilities are secured by debenture of KShs 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479. The weighted average interest rate on the overdraft at year-end was 14.41% (2015: 14%). The bank overdrafts are reviewed annually and are payable on demand.

17. BANK LOAN

	GROUP & COMPANY	
	2016	2015
	KShs'000	KShs'000
Due within 1 year	**467,889**	**305,755**
Due after 1 year	**246,703**	**209,903**

The amount due within one year relates to post import financing from Kenya Commercial Bank Limited and Commercial Bank of Africa for a period not exceeding 6 months and is secured pari-passu by debenture of KShs. 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479.

The weighted average interest rate on the loan at year-end was 14% (2015: 9%). The amount due in 1 year also includes the current portion of the long term loan due within 12 months amounting KShs 12 million. The long term loan relates to financing from Kenya Commercial Bank Limited for the construction of warehouses and offices, landed costs of vehicles, equipment, fixtures and fittings for a new factory erected on property L.R. No. Kisumu/ Ojola/4790. The interest on the term loan is 14% and the facility shall be repaid in 126 months consecutive monthly instalments inclusive of interest and other charges.

18. SHORT TERM NOTES

	GROUP & COMPANY	
	2016	2015
	KShs'000	KShs'000
Amounts falling due within one year	**507,403**	**650,989**

The short-term notes are non-secured facilities from private lenders and are repayable on maturity of the facilities. The interest rate on the short-term note is at treasury bills interest rate plus 1.5% and the short-term notes are for 365 days period.

Notes to the financial statements for the year ended 31 December 2016 (continued)

19. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Amounts falling due within one year				
Trade payables	1,445,564	1,353,128	1,320,022	1,212,379
Other payables	134,560	68,365	118,897	54,727
Accruals	260,165	167,712	240,488	148,518
	1,840,289	1,589,205	1,679,407	1,415,624

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables represent outstanding payroll costs and unidentified bank deposits and are non-interest bearing and have an average term of one month.
- Accruals are non-interest bearing and represent liabilities in relation to expenses incurred but for which invoices had not been received as at year-end.

20. REVENUE

The following revenue arose from sale of goods:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Decorative paints	5,774,519	5,388,860	5,475,674	5,235,849
Industrial paints	1,043,566	868,511	830,215	726,334
Automotive paints	385,711	359,043	287,196	305,620
Adhesives	143,761	120,694	133,283	117,421
	7,347,557	**6,737,108**	**6,726,368**	**6,385,224**

21. COST OF SALES

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Raw materials	4,070,332	3,661,718	3,788,425	3,570,512
Salaries and wages	126,528	129,403	118,717	121,869
Depreciation on plant and machinery	40,186	32,180	35,011	24,847
Machinery repairs and maintenance	81,647	63,139	77,860	59,180
Fuel, water and electricity	29,598	21,509	22,782	14,797
Safety & environmental costs	-	29,017	-	28,691
Consultancy technical	-	2,608	-	2,608
Transport costs	-	7,373	-	7,347
Factory rent	-	1,511	-	-
Others	53,153	8,035	49,363	6,578
	4,401,444	**3,956,493**	**4,092,158**	**3,836,429**

Notes to the financial statements for the year ended 31 December 2016 (continued)

22. OTHER INCOME

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	1,190	518	1,142	-
Interest income	1,728	2,184	1,716	2,181
Miscellaneous income	39,861	54,892	33,254	46,392
Operating lease revenue	16,163	14,997	12,511	11,480
Doubtful debts written back	46,001	75,719	43,702	75,007
Decrease in provision for leave	10,920	-	10,920	-
Reversal of inventory write down	29,633	803	29,374	655
Forex exchange gain	106,224	50,991	32,272	43,714
Surcharge sales	8,573	33,850	8,572	33,850
	260,293	**233,954**	**173,463**	**213,279**

23. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs (Note 26)	976,423	873,778	834,424	745,558
Depreciation of property and equipment	116,834	110,753	96,912	91,977
Auditors' remuneration	10,638	10,475	5,900	5,500
Directors' emoluments:				
As directors	9,904	9,694	9,904	9,694
As executives	108,925	100,826	108,925	100,826
Legal and professional fees	26,331	33,579	21,734	26,235
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	15,144	13,325	13,067	12,319
Insurance	46,493	38,545	39,063	33,864
Loss on disposal of property and equipment	-	907	-	750
Foreign exchange loss	141,139	265,393	15,982	141,750
Office expenses	75,181	78,280	55,519	57,974
Consultancy fees	7,847	19,041	6,147	18,998
Computer costs	83,850	50,122	79,890	49,294
Travel	28,603	37,156	19,366	26,599
Maintenance, subscriptions and donations	20,612	14,321	18,146	12,506
Bank charges	14,464	10,999	12,533	9,503
Others	12,963	16,708	10,268	13,727
	1,695,616	**1,684,167**	**1,348,045**	**1,357,339**

24. SELLING AND DISTRIBUTION

Transport	212,947	196,650	164,542	158,767
Advertising and promotion	351,526	442,103	298,727	391,429
Inventory write-downs	34,533	40,774	32,751	38,368
Allowance for bad debts-trade receivables	111,404	98,985	74,653	73,806
Bad debts written off during the year	191	5,334	191	1,050
Depot expenses	188,261	169,774	142,658	124,739
Others	7,610	4,552	6,571	4,455
	906,472	**958,172**	**720,093**	**792,614**

Notes to the financial statements for the year ended 31 December 2016 (continued)

25. FINANCE COSTS

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loan and overdraft	115,412	48,598	115,412	48,598
Interest on short term notes	94,314	106,935	94,314	106,935
	209,726	**155,533**	**209,726**	**155,533**

26. STAFF COSTS

Salaries and wages	795,267	692,879	684,384	590,787
Defined contribution plan	10,205	8,241	2,327	1,057
Medical benefits	12,669	11,543	5,919	7,001
Insurance	78,121	71,562	75,609	68,954
Staff general costs	56,341	58,373	48,326	50,035
Training and development	23,820	31,180	17,859	27,724
Staff costs (Note 23)	976,423	873,778	834,424	745,558
Salaries and wages (note 21)	126,528	129,403	118,717	121,869
Total staff costs	**1,102,951**	**1,003,181**	**953,141**	**867,427**

27. PROFIT BEFORE TAX

The profit before tax is stated after charging: -				
Depreciation of property & equipment	157,020	142,782	131,923	116,824
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	15,144	13,325	13,067	12,319
Directors emoluments:				
As directors	9,904	9,694	9,904	9,694
As Executives	108,925	100,826	108,925	100,826
Auditors' remuneration	10,638	10,475	5,900	5,500
Loss on disposal of property and equipment	-	907	-	750
Finance costs	209,726	155,533	209,726	155,533
Foreign exchange loss	141,139	265,393	15,982	141,750
And after crediting: -				
Interest income	1,728	2,184	1,716	2,181
Operating lease income	16,163	14,997	12,511	11,480
Gain on disposal of property and equipment	1,190	518	1,142	-
Forex exchange gain	106,224	50,991	32,272	43,714

Notes to the financial statements for the year ended 31 December 2016 (continued)

28. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Net profit attributable to ordinary shareholders	131,796	30,748	268,488	271,479
Weighted average number of ordinary shares in '000'	**71,181**	**71,181**	**71,181**	**71,181**

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive shares as at 31 December 2016 and as at 31 December 2015.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and cash equivalents	205,632	108,468	157,642	78,947
Bank overdraft (Note 16)	(134,374)	(160,840)	(134,374)	(160,838)
	71,258	**(52,372)**	**23,268**	**(81,891)**

30. COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

(i) AS LESSEE:
The company made upfront payments to acquire leasehold interests in land as disclosed in Note 5 to the financial statements. Therefore, there are no future minimum lease payments due to third parties under non-cancellable operating leases

(ii) AS LESSOR:
The Group has entered into commercial property leases on its surplus office and manufacturing building and certain items of machinery. These non-cancellable leases have remaining terms of two years and three months. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.
The total future minimum rentals receivable from third parties under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Within 1 year	22,968	14,462	12,511	11,198
Within 5 years	9,983	29,833	9,983	22,494
	32,951	**44,295**	**22,494**	**33,692**

Notes to the financial statements for the year ended 31 December 2016 (continued)

30. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

b) Contingent Liabilities

A provision of KShs 1.3 million has been made in relation to pending legal cases (2015: Nil).
The Group is involved in a number of legal proceedings which are yet to be concluded upon. The Directors evaluate the status of these exposures on a regular basis to assess the probability of incurring related liabilities. The estimated liability of pending legal cases is KShs 2.8 million out of which KShs 1.3 million has been provided for.

c) The Group's capital commitments as at year end were KShs 21 million for the construction of a factory in Kisumu. (2015: KShs 28 million)

d) Bank facilities

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Letters of credit	204,600	204,600	204,600	204,600
Guarantees given by bankers	20,000	20,000	20,000	20,000
	224,600	**224,600**	**224,600**	**224,600**

The guarantees are issued by the Group's bankers in favour of third parties and the Group has entered into counter-indemnities with the same banks. These guarantees are part of the borrowing facilities disclosed in Note 17 above and are issued in the normal course of business.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and overdrafts, short term note and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group's principal financial assets include trade receivables and other receivables and cash and short-term deposits, which arise directly from its operations.

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Loans and receivables				
Cash and cash equivalents	205,632	108,468	157,642	78,947
Trade and other receivables	1,394,560	1,166,440	969,898	797,843
Deposit for shares	-	-	-	204,028
Amounts due from related companies	475,672	309,514	1,084,373	1,428,411
	2,075,864	**1,584,422**	**2,211,913**	**2,509,229**
Financial liabilities at amortised cost				
Bank overdraft	134,374	160,840	134,374	160,838
Bank loans	714,592	515,658	714,592	515,658
Short term notes	507,403	650,989	507,403	650,989
Amounts due to related companies	299,095	216,910	304,311	261,332
Trade and other payables	1,840,289	1,589,205	1,679,407	1,415,624
	3,495,753	**3,133,602**	**3,340,087**	**3,004,441**

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors review and agree policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's loans, bank overdraft and short term notes. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's exposure to the risks associated with changes in interest rates on bank overdraft is minimal as its borrowings are pegged to interest rates that were agreed in advance and do not change regularly. Interest on the Company's loans is charged at the banks' base rates prevailing from time to time (minus 3% for CBA KShs account, plus 2% for USD account, for KCB minus 2% for KShs account and USD at base rate). Currently, the CBA and KCB KShs base lending rates are 14%. CBA USD base lending rate is 6.25% and KCB 9%. The interest on the short-term note is at treasury bills interest rate plus 1.5%.

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity Effect on KShs'000	Effect profit before tax KShs'000	Effect equity KShs'000
2016	Increase by 2%	19,266	13,486	19,266	13,486
	Decrease by 2%	(19,266)	(13,486)	(19,266)	(13,486)
2015	Increase by 2%	19,135	13,394	6,182	4,327
	Decrease by 2%	(19,135)	(13,394)	(6,182)	(4,327)

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. It is the Group's policy that all customers who wish to trade on credit terms are subjected to credit verification procedures. The credit controller 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 ratings in accordance with limits set by management. Utilisation of credit limits is regularly monitored. The Group has no collateral holdings as there is no significant concentration of credit risk.

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The amounts that best represent the Group's and company's maximum exposure to the credit risk as at 31 December 2016 were as follows:

GROUP
As at 31 December 2016

	Neither past due nor impaired Less than 60 days	Past due but not impaired 61-90 days	Impaired	Over 90 days	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	832,595	112,599	716,041	(327,196)	1,334,039
Other receivables	23,947	2,699	33,876	-	60,522
Amount due from related companies	58,050	12,122	405,501	-	475,673
Bank balances and cash	205,632	-	-	-	205,632
	1,120,224	**127,420**	**1,155,418**	**(327,196)**	**2,075,866**

COMPANY
As at 31 December 2016

	Neither past due nor impaired Less than 60 days	Past due but not impaired 61-90 days	Impaired	Over 90 days	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	671,713	54,398	466,101	(246,694)	945,518
Other receivables	2,200	915	21,265	-	24,380
Amount due from related companies	52,885	15,312	1,016,176	-	784,373
Bank balances and cash	157,642	-	-	-	157,642
	884,440	**70,625**	**1,503,542**	**(246,694)**	**2,211,913**

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The amounts that best represent the Group's and company's maximum exposure to the credit risk as at 31 December 2015 were as follows:

GROUP:

As at 31 December 2015

	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	820,568	101,566	449,318	(266,395)	1,105,057
Other receivables	9,257	1,753	50,373	-	61,383
Amount due from related parties	36,126	6,835	266,553	-	309,514
Bank balances and cash	108,468	-	-	-	108,468
	974,419	**110,154**	**766,244**	**(266,395)**	**1,584,422**

COMPANY:

As at 31 December 2015

	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	667,861	60,107	257,435	(215,743)	769,660
Other receivables	5,014	1,689	21,480	-	28,183
Amount due from related parties	82,570	25,365	1,320,476	-	1,428,411
Bank balances and cash	78,947	-	-	-	78,947
Deposit for shares	-	-	204,028	-	204,028
	834,392	**87,161**	**1,803,419**	**(215,743)**	**2,509,229**

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 credit department is actively following these debts.

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group's main operations are concentrated in Kenya and its assets and liabilities are reported in the local currency. It has transactions in foreign currency which are mainly denominated in US Dollars.

The balances in foreign currencies were as follows:

	GROUP		COMPANY	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Assets in foreign currencies				
Trade and other receivables	13,311	12,154	450	8,667
Cash and bank	8,907	11,344	6,195	7,412
Foreign currency assets	**22,218**	**23,498**	**6,645**	**16,079**
Liabilities in foreign currencies				
Bank overdraft	(18,048)	(23,535)	(18,048)	(23,533)
Payables	(683,369)	(731,772)	(656,738)	(687,939)
Short term notes	-	(305,755)	-	(305,755)
Bank loan	(115,581)	-	(115,581)	-
Foreign currency liabilities	(816,998)	(1,061,062)	(790,367)	(1,017,227)
Net foreign currency (liability) / asset position	**(794,780)**	**(1,037,564)**	**(783,722)**	**(1,001,148)**

The Group makes sales in other countries in American Dollars (USD). It is thus exposed to movements in foreign currency exchange rates.

The following table demonstrates the sensitivity to a reasonably possible change in USD, with all other variables held constant, of the Group's and the Company's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

		GROUP		COMPANY	
USD		Effect on profit before tax	Effect on equity profit	Effect on before tax	Effect on equity
2016	Increase in US$ by 4%	(5,544)	(3,881)	(5,102)	(3,571)
	Decrease in US$ by 4%	5,544	3,881)	5,102	3,571
2015	Increase in US$ by 4%	41,503	29,052	40,046	28,032
	Decrease in US$ by 4%	(41,503)	(29,052)	(40,046)	(28,032)

Liquidity risk

This is the risk that the Company and the Group will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet the Company's and Group's obligations.

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

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 Group'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 amounts, as the impact of discounting is not significant.

GROUP

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2016							
Financial Liabilities							
Bank overdraft	(134,374)	-	-	-	-		(134,374)
Bank loan	(99,864)	(133,098)	(155,549)	(40,839)	(38,538)	(479,055)	(946,943)
Short term notes	(75,137)	(181,418)	(134,274)	(51,359)	(65,215)	-	(507,403)
Trade payables	(613,415)	(160,566)	(78,090)	(61321)	(532,172)	-	(1,445,564)
Other payables	(40,748)	(93,685)	-	-	(127)	-	(134,560)
Amounts due to related companies	(12,494)	(6,617)	(3,858)	(9,560)	(266,566)	-	(299,095)
Total financial liabilities	**(976,032)**	**(575,384)**	**(371,771)**	**(163,079)**	**(902,618)**	**(479,055)**	**(3,467,939)**

GROUP

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2015							
Financial Liabilities							
Bank overdraft	(160,840)	-	-	-	-		(160,840)
Bank loan	(101,314)	(116,892)	(56,790)	-	(30,759)	(408,339)	(714,094)
Short term notes	(179,191)	(103,219)	(284,240)	(25,398)	(58,941)	-	(650,989)
Trade payables	(955,004)	(52,385)	(159,995)	(10,920)	(174,824)	-	(1,353,128)
Other payables	(35,480)	(32,885)	-	-		-	(68,365)
Amounts due to related companies	-	-	(2,423)	-	(214,487)	-	(216,910)
Total financial liabilities	**(1,431,829)**	**(305,381)**	**(503,448)**	**(36,318)**	**(479,011)**	**(408,339)**	**(3,164,326)**

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

COMPANY

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2016							
Financial Liabilities							
Bank overdraft	(134,374)	-	-	-	-	-	(134,374)
Bank loan	(99,864)	(133,098)	(155,549)	(40,839)	(38,538)	(479,055)	(946,943)
Short term notes	(75,137)	(181,418)	(134,274)	(51,359)	(65,215)	-	(507,403)
Trade payables	(580,441)	(148,501)	(60,845)	(55,398)	(474,837)	-	(1,320,022)
Other payables	(25,212)	(93,685)	-	-	-	-	(118,897)
Amounts due to related companies	(12,133)	(11,493)	(1,067)	(11,923)	(267,695)	-	(304,311)
Total financial liabilities	**(927,161)**	**(568,195)**	**(351,735)**	**(159,519)**	**(846,285)**	**(479,055)**	**(3,331,950)**

COMPANY

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2015							
Financial Liabilities							
Bank overdraft	(160,838)	-	-	-	-	-	(160,838)
Bank loan	(101,314)	(116,892)	(56,790)	-	(30,759)	(408,339)	(714,094)
Short term notes	(179,191)	(103,219)	(284,240)	(25,398)	(58,941)	-	(650,989)
Trade payables	(902,587)	(42,746)	(139,192)	-	(127,854)	-	(1,212,379)
Other payables	(17,440)	(37,287)	-	-	-	-	(54,727)
Amounts due to related companies	(2,573)	(932)	(3,125)	(12,387)	(242,315)	-	(261,332)
Total financial liabilities	**(1,363,943)**	**(301,076)**	**(483,347)**	**(37,785)**	**(459,869)**	**(408,339)**	**(3,054,359)**

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, interest rate, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Operational risk (continued)
The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.

32. FAIR VALUE OF ASSETS AND LIABILITIES

a) Comparison by class of the carrying amounts and fair values of the financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Management assessed that the fair value of trade receivables, amount due from related companies, cash and cash equivalents, trade payables, short term notes, current bank loans and amounts due to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the non-current loan has been determined by computing the present value of future cash out flows at the rate of 14% over the loan period.

Notes to the financial statements for the year ended 31 December 2016 (continued)

32. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

b) Fair value hierarchy

The group measures all property, plant and equipment except land at fair value. The fair value information on the assets measured at fair value is included below by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

GROUP	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
31 December 2016				
Property, plant and equipment	-	-	1,063,812	1,063,812
LIABILITY				
Bank loan	-	(257,693)	-	(257,693)
31 December 2015				
Property, plant and equipment	-	-	639,454	639,454
LIABILITY				
Bank loan	-	(104,900)	-	(104,900)

COMPANY	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
31 December 2016				
Assets				
Property, plant and equipment	-	-	1,063,812	1,063,812
LIABILITY				
Bank loan	-	(257,693)	-	(257,693)
31 December 2015				
Assets				
Property, plant and equipment	-	-	602,653	602,653
LIABILITY				
Bank loan	-	(104,900)	-	(104,900)

There were no transfers between levels 1, 2 and 3 in the year.

Notes to the financial statements for the year ended 31 December 2016 (continued)

32. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

b) Fair value hierarchy (continued)

The fair values of property, plant and equipment presented in the table above are as at 31 December 2016, the date of valuation.

As at 31 December 2016, the properties' fair values were based on valuations performed by Lead Realtors Limited, accredited independent valuers.

Basis of valuation:
Assets were valued on basis of Open Market Value which is defined as the most probable amount for which the property/asset would reasonably be expected to sell at the date of valuation between a willing buyer and a willing seller in an arm's length transaction after a proper and reasonable marketing period wherein the parties under negotiation have each acted knowledgeably, prudently and without compulsion.

In arriving at the value of the various assets, the valuers considered value in exchange (the probable price an asset would exchange for in the open market) and value in use (value a specific property has for a specific user) and therefore non-market related sometimes.

Methodology:
The following methods were used in the valuation of different assets as appropriate:

a) Comparable Approach: This method considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

b) Depreciated Replacement Cost: Is the current cost of reproduction or replacement of an asset less deductions for physical deterioration, and all relevant forms of obsolescence and optimization.

Fair values of financial instruments
The Group did not have financial instruments whose subsequent measurement is at fair value.

Notes to the financial statements for the year ended 31 December 2016 (continued)

33. OPERATING SEGMENT INFORMATION

The Group's risks and rate of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The paints segment manufactures and sells paints, decorating sundries, PVA emulsion and alkyd resins producer.

The adhesives segment manufactures and sells adhesives.

Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Operating Segments

The Group's business is currently organised in two divisions, paint and adhesives which form the basis on which it reports its primary segment information.

Segment information is as presented below.

31 December 2016 **Assets and Liabilities**	**Paints** **KShs '000**	**Adhesives** **KShs '000**	**Elimination** **KShs '000**	**Total** **KShs '000**
Segment assets	5,666,251	32,933	(640,155)	5,059,029
Investment in subsidiary	881,095	-	(881,095)	-
Total assets	6,547,346	32,933	(1,521,250)	5,059,029
Segment liabilities	4,128,503	8,565	(640,155)	3,496,913

Other segment information	**Paints** **KShs '000**	**Adhesives** **KShs '000**	**Elimination** **KShs '000**	**Total** **KShs '000**
Capital expenditure - property, plant and equipment and intangible assets	260,264	1,032	-	261,296
Depreciation and amortisation	170,748	1,681	-	172,428
Revenue				
Sales to external customers	7,203,797	143,760	-	7,347,557
Inter segment sales	514,775	44,390	(559,165)	-
Interest income	1,687	41	-	1,728
Other income	254,220	4,345	-	258,565
Interest expense	204,750	4,976	-	209,726
Results				
Operating results	274,773	(2,730)	-	272,043
Income tax expense	(140,247)	-	-	(140,247)
Profit for the year	134,526	(2,730)	-	131,796

Notes to the financial statements for the year ended 31 December 2016 (continued)

33. OPERATING SEGMENT INFORMATION (CONTINUED)

31 December 2015 **Assets and Liabilities**	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Segment assets	5,635,992	68,765	(1,165,609)	4,539,148
Deposit for shares	204,028	-	(204,028)	-
Investment in subsidiary	48,512	-	(48,512)	-
Total assets	**5,888,532**	**68,765**	**(1,418,149)**	**4,539,148**
Segment liabilities	4,347,338	4,637	(1,165,609)	3,186,366

Other segment information	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Capital expenditure - property, plant and equipment and intangible assets	410,578	13	-	410,591
Depreciation and amortisation	151,911	4,196	-	156,107
Revenue				
Sales to external customers	6,616,414	120,694	-	6,737,108
Inter segment sales	538,109	581	(538,690)	-
Interest income	2,147	37	-	2184
Other income	227,827	3,943	-	231,770
Interest expense	152,898	2,635	-	155,533
Results				
Operating results	218,512	(1,816)	-	216,696
Income tax expense	(185,949)	-	-	(185,949)
Profit for the year	32,563	(1,816)	-	30,747

Notes to the financial statements for the year ended 31 December 2016 (continued)

33. OPERATING SEGMENT INFORMATION (CONTINUED)

Revenue from external customers

	2016 KShs '000	2015 KShs '000
Kenya	6,210,151	6,328,625
Uganda	440,000	249,749
Tanzania	424,053	79,612
Burundi	5,167	4,621
Mozambique	-	5,103
Rwanda	256,882	28,199
Somali	4,473	10,198
South Sudan	6,321	27,238
DRC	510	3,763
Total revenue	7,347,557	6,737,108

The revenue information above is based on the locations of the customers.
The group's sales are derived from various customers and there is no major customer it derives a substantial amount of sales from.

Non-current assets	2016 KShs '000	2015 KShs '000
Kenya	1,156,141	1,129,920
Uganda	36,505	45,563
Tanzania	54,977	48,290
Rwanda	11,119	7,934
	1,258,742	1,231,707

Non-current assets for this purpose consist of property, plant and equipment, intangible assets and prepaid leases.

34. STATUS OF THE SUBSIDIARY COMPANIES

Regal Paints Uganda Industries Limited
The company incurred a loss of KShs 81 million (2015 - KShs 35 million) during the year ended 31 December 2016 and, as of that date, the company's current liabilities exceeded its current assets by KShs. 39 million (2015 - KShs. 282 million). In addition, the company's accumulated losses stood at KShs. 359 million as at 31 December 2016 (2015- KShs 301 million) while its total liabilities exceeded total assets by KShs 2.2 million (2015 - KShs. 298 million).

Crown Paints Tanzania Limited
The company incurred a loss of KShs 43 million during the year ended 31 December 2016 (2015 -KShs 199 million) and, as of that date, the company's current assets exceeded its current liabilities by KShs 9 million (2015- liabilities exceeded assets by KShs 340 million). In addition, the company's accumulated losses stood at KShs. 345 million as at 31 December 2016 (2015- KShs. 323 million) while its total assets exceeded total liabilities by KShs. 64 million (2015: liabilities exceeded assets by KShs. 291 million).

Notes to the financial statements for the year ended 31 December 2016 (continued)

34. STATUS OF THE SUBSIDIARY COMPANIES (CONTINUED)

Crown Paints Rwanda Limited
The company incurred a loss of KShs. 9.4 million during the year ended 31 December 2016 (2015- KShs. 4.5 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs. 29.4 million (2015-KShs. 20 million). In addition, the company's accumulated losses stood at KShs. 22.2 million as at 31 December 2016 (2015 - KShs. 12.8 million) while its total liabilities exceeded total assets by KShs 18.3 million (2015- KShs 12 million).

Crown Paints Allied Industries Limited
The company incurred a loss of KShs. 2.7 million during the year ended 31 December 2016 (2015- KShs. 1.8 million) and, as of that date, the company's current assets exceeded its current liabilities by KShs. 23 million (2015 - KShs. 62 million). However, the company's accumulated losses stood at KShs. 72.6 million as at 31 December 2016 (2015-KShs. 70 million) while its total assets exceeded total liability by KShs 24.4 million (2015- liabilities exceeded assets by KShs 60 million).

During the year ended 31 December 2016, directors resolved to capitalize KShs 665.6 million (KShs 382.2 million- for Crown Paints Tanzania Limited and KShs 283.4 million for Regal Paints Uganda Limited) out of the amount owing from the subsidiaries making losses.

	Regal Paints Uganda Limited KShs 000	Crown Paint Tanzania Limited KShs 000	Crown Paints Allied Industries Limited KShs 000	Crown Paints Rwanda Limited KShs 000	Total KShs 000
31 December 2016					
Loss before tax	(80,688)	(42,425)	(2,730)	(9,374)	(135,217)
Accumulated losses	(358,570)	(344,559)	(72,630)	(22,201)	(797,960)
Net current assets/ (liabilities)	(38,743)	8,990	23,334	(29,349)	(35,858)
Total net assets/ (liabilities)	(2,238)	63,967	24,370	(18,319)	67,779
31 December 2015					
Loss before tax	(35,144)	(198,434)	(1,815)	(4,498)	(239,891)
Accumulated losses	(300,479)	(322,751)	(69,900)	(12,827)	(705,957)
Net current assets/ (liabilities)	(281,451)	(339,466)	62,444	(19,891)	(578,364)
Total net assets/ (liabilities)	(298,963)	(291,176)	(59,900)	(11,957)	(661,997)

As discussed in the preceding paragraph, the subsidiaries have a history of losses. Further, the subsidiaries rely on the parent company for provision of working capital and their ability to continue as a going concern depends on the continued support they receive from the parent company. The parent company has confirmed its commitment to continue giving financial support to the subsidiaries, and has issued an undertaking in this respect to each of the subsidiaries. The undertaking affirms the parent company's commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries meet their financial obligations, as and when they fall due, and to ensure they continue trading in the foreseeable future.

Further, the directors have assessed business outlook of the subsidiaries and they are confident that their financial performance will improve, and they will become profitable in the foreseeable future. The directors have no immediate plan to cease operations for any of the subsidiaries and /or liquidate them.

These conditions give rise to a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis of preparation presumes that the company and group will realize its assets and discharge its liabilities in the ordinary course of business.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings, cash and cash equivalents, issued capital and retained earnings. The Group's capital requirements are currently met through internally generated funds from operations and external borrowing in the form of bank loans and short term notes. To maintain its capital structure, the Group may adjust dividend payment to shareholders. 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. The Group does not have a gearing ratio target and is not subject to any imposed capital requirements.

	2016 KShs'000	2015 KShs'000
Share capital	355,905	355,905
Share premium	80,174	80,174
Retained earnings	906,869	815,575
Equity	1,342,948	1,251,654
Total borrowings	1,221,995	1,166,647
Add: cash and cash equivalents (Note 29)	(71,258)	52,371
Net debt	1,150,737	1,219,018
Total capital	2,493,685	2,470,672
Gearing ratio	46.15%	49.34%

36. INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015.

37. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

Notes

Notes

To: The Registrar
Custody & Registrar Services Limited
Bruce House, 6th Floor
Standard Street
PO Box 8484
00100 - NAIROBI

PROXY FORM
CROWN PAINTS KENYA LIMITED

I/We ____

of ____

being a member/members of Crown Paints Kenya Limited hereby appoint

____

of ____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixtieth Annual General Meeting of the Company to be held on 20 June 2017 and at any adjournment thereof.

Signed/Sealed this ______________day of ______________________________2017

Notes:

1 In the case of a corporation the proxy must be under the Common Seal or the hand of an officer or attorney duly authorised in that behalf.

2 To be valid, the proxy form should be completed and deposited with the Registrars not less than 48 hours before the time for holding the meeting or adjourned meeting.

Notes

CROWN PAINTS KENYA LTD

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Helpline: +254 (0) 703 333 777 Email: marketing@crownpaints.co.ke
NAIROBI • KISUMU • MOMBASA • KAMPALA • ARUSHA • MWANZA • KIGALI

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