CROWN PAINTS KENYA LTD
AND SUBSIDIARIES

Annual Report & Financial Statements 2014

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crown

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VISIBLE WATER REPELLENT PAINT WITH SILICONE™

Crown Permacote Ultraguard with Silicone keeps your walls dry. The silicone prevents water from penetrating yet allows vapour to escape.

- Up to 10 year warranty
- Unique silicone technology from Germany
- Visible water repellent effect
- Self cleaning - prevents dust accumulation
- Breathes - allows vapour to escape

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Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 58th Annual General Meeting of the Company will be held at the Panafric Hotel, Kenyatta Avenue, Nairobi on Tuesday, 23 June 2015 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 2014 together with the Directors' and Auditors' Reports thereon.

4 To declare a final dividend of KShs 1.75/= per ordinary share for the financial year ended 31 December 2014, and approve the closure of the Register of Members at 4.30 pm on 24 June 2015 for one day only.

5 To approve the Directors' remuneration for 2014.

6 To elect Directors:

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

b. Mr. Steven Bwire Oundo, who was appointed as a Director of the Company on 29 April 2015, retires from office in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

c. Ms. Grace J Kemei, who was appointed as a Director of the Company on 14 May 2015, retires from office in accordance with the Company's Articles of Association and, being eligible, offers herself for re-election.

7 To note that Ernst & Young continue in office as Auditors in accordance with Section 159 (2) of the Companies Act and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

8 To consider and, if thought fit, pass the following ORDINARY RESOLUTIONS:

a) Bonus Issue

"That, upon the recommendation of the Directors, and subject to the relevant regulatory approvals, it is desirable to capitalise the sum of KShs. 237,270,000 being part of the amount standing to the credit of the Company's revenue reserve account at 31 December 2014 and that such sum be capitalised and accordingly the Directors be and they are hereby authorised and directed to appropriate the said sum to the holders of the ordinary shares in the capital of the Company registered at the close of business on 24 June 2015 and to apply such sum in paying up in full at par on behalf of such holders 47,454,000 ordinary shares of KShs. 5 each ranking pari passu in all respects with the existing issued ordinary shares of the Company and that such shares be allotted and distributed credited as fully paid to and among the said holders in the proportion of two of the said ordinary shares for every one ordinary share then held, and so that the Directors shall have the full power to do such acts and things required to give effect to the said capitalisation, allotment and distribution including the sale of any shares representing fractions for the benefit of shareholders."

Notice of the Annual General Meeting (cont'd)

b) Increase in Authorised Share Capital

"That in order to effect the above bonus issue, the authorised share capital of the Company be increased by KShs 155,905,000/= from KShs 200,000,000/= divided into 40,000,000 ordinary shares of KShs 5/= each to KShs 355,905,000/= divided into 71,181,000 ordinary shares of KShs 5/= each by the creation of an additional 31,181,000 ordinary shares of KShs 5/= each, such shares to rank pari passu with regard to dividends and all other respects with the issued ordinary shares."

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 14 May 2015

NB In accordance with section 136 (2) of the Companies Act (Cap. 486) 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, 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.

Executive Directors

Hussein Ramji
Vice Chairman

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Chairman's Statement

2014 had a mixed result for Crown Paints Group of companies. Crown in Kenya performed well, but Tanzania, Rwanda and Uganda did not perform as expected, hence bringing down the final figures of the Group's results.

Crown Kenya increased sales of paints volume but this did not translate to increased profit due to increased operation cost. 2014 saw the launch of new innovative paints into the Kenyan market, such as Silicone - Africa's first water repellent and self cleaning paint. We also introduced other paints such as Glass Plaster that has a shiny effect in sunlight.

Crown Kenya continued to take advantage of a growing economy in 2014, stable and low inflation, a stable currency and continuously growing construction sector that keeps developing buildings in all sectors of the economy. Crown is well placed as it has products for every part of the construction sector from low to middle and high value buildings.

Crown Kenya continues to be the leading paint company in Kenya due to its quality products, innovative paints and new technical paints that are enhancing the lifestyle of Kenyans.

The regional subsidiaries of the Crown Group have had a difficult 2014. Regal Paints has increased its market share in Uganda. However, it had to incur heavy expenditure in marketing. This was necessary, to increase awareness of the brand in the urban and rural parts of Uganda. Slowly and surely, the Regal Paints brand is continuing to increase volumes, sales and introduction of new products. The Uganda economy in 2014 had its own difficulties, mainly a depreciating currency and a slightly higher inflation than desired to keep the economy smoothly moving along.

Crown Tanzania in its first full year, had a very difficult year. With many well established players in the market, it has been a challenge to enter into the market and gain a respective foothold competing against the major paint companies that have been established for many decades in Tanzania. We are confident that as demonstrated by our past record, Crown will gain a good size of the market share in Tanzania as brand awareness will increase.

Tanzania is a developing country with an expanding construction sector that will allow Crown Paints to grow as the country increases its GDP and per capita income resulting in a more affluent population.

Crown Rwanda has only recently opened a showroom in Kigali, and has benefited from having a place to display Crown products where customers can visit and see all the different textures and colours that are produced by Crown Paints. This is the first such exclusive Crown Showroom in Rwanda. The Rwanda market is very promising as the main market is for premium paints that are high quality and very durable and have special technical properties. We are confident that Rwanda will do well despite being a smaller market compared to Uganda and Tanzania.

In conclusion, 2014 was a tough year in terms of monetary values and did not represent Crown Paints' normal performance although the volume of paint sales increased to double digits. However, as the future unfolds, Crown Paints will benefit from the regional expansion which is currently ongoing, as volumes and profits will increase once the markets entered, produce good returns.

In closing, I wish to thank the Board of Directors for their continued aspiring support which they give with dedication and commitment. I also want to say a thank you to the staff of the company for their continuous hard work, dedication, creativity and loyalty which has made Crown Paints the company it is today.

Finally, on behalf of the Board of Directors, the management and staff, I would like to thank our shareholders for your continued loyal support of Crown Paints.

Mhamud Charania
30 April 2015

Group Chief Executive Officer Statement

Dear Shareholders,

Last year was not a good year for the economy as a whole. The economy grew by 5.3 %, a dip from 5.7 % recorded in 2013 majorly as a result of sluggish manufacturing sector. The manufacturing sector shrank in 2014 to 3.4% as compared to a growth of 5.6 % in 2013. This was partly due to high input cost, high cost of credit and stiff competition from cheap imports. This has put more pressure on Crown as a leading player and contributor in the manufacturing sector.

However Economic growth received a much needed boost from the building and construction sector which recorded a 13.1% growth buoyed by increased spending in capital infrastructure projects and real estate development.

Data released by Kenya National Bureau of Statistics in Economy Survey 2015 confirmed predictions of a slowdown, However neighboring countries Tanzania and Rwanda grew faster than Kenya posting 7.2 % and 6.0% growth rates respectively hence reaffirming our strategy of regional expansion for future growth.

In 2014, we managed to cement our grip in the industry through an ambitious expansion plan targeting the larger East African region. The expansion strategy saw Crown Paints invest in Tanzania and Rwanda. We have already established a foothold in Uganda with our showroom and dealer operations.

We also managed to increase the number of our showrooms from one in 2013 to seven in 2014; Lavington and Muthithi Place in Nairobi, Nakuru, Mombasa, Eldoret, Kigali and Dar-es-Salaam. These paint showrooms are critical to our business since they are enablers in imparting knowledge to the consumers, hence bridging the paint literacy gap. The ever increasing middle-class population has contributed to the growth of paint consumption in the country, hence Crown Paints idea to establish modern paint showroom in major towns.

As a company, we shall continue to partner with the like minded institutions globally and locally. One of the most notable partnerships last year, was with Pidilite's Industries.

In our innovations, we introduced a Silicone technology to our exterior range of paints. The

Group Chief Executive Officer Statement (cont'd)

silicone - based paint, trading as Permacote Ultraguard with Silicone is produced in Kenya using silicone technology from Germany and is packed in 1ltr, 4ltr and 20ltr cans. The paint is designed to suit Kenya's diverse weather conditions. It prevents moisture from penetrating into exterior wall surfaces while allowing water vapour to escape through it.

We were the first paint company in Kenya to win the prestigious Company of the Year Award (COYA), CEO of the Year Award, Leadership and Management Award, and Productivity Award; all of which is attributed to teamwork and partnerships.

In 2014, Crown Paints was among the first manufacturing firms to be awarded a mark of identity by Brand Kenya Board (BKB). The mark of identity, titled 'A Touch of Kenya', was developed by BKB to enhance the competitiveness of Kenya's products and services. To cap it all, Crown Paints is the only listed paint manufacturer in the busiest securities exchange in East and Central Africa.

However, we are still facing the challenges of counterfeits, high inflation, high interest rates, political upheaval, slow economic growth and a shortage of technical staff. Slow economic growth coupled with a devaluing currency wherein our raw material input costs have risen significantly, means that we have had to revise our performance indicators and we expect that 2015 will also be a challenging year financially. Although these challenges might have an effect in our business, we are determined to diffuse possible solutions to ensure we achieve our vision.

We have invested heavily on our expansion in Tanzania and Rwanda, which has impacted heavily on the year 2014 financial results. The investment was necessary to establish market presence in these important emerging markets. These are not short term investments and will bear fruit over the next four to five years if currency rate remains stable and the security situation in the region improves which has a high impact on growth.

However, we have undertaken several other measures to enhance business performance and profitability. These include a focus on sales of our premium brands to improve margins; cost cutting initiatives; improving debtors and inventory management; productivity improvement, better supply chain management and implementation of effective ERP for better controls and monitoring. We are confident that with all these measures, we will soon return to previous profitability levels.

We are committed to providing quality products and services as it embrace the principle of responsible stewardship on natural environment. We have installed an effluent treatment plant and solvent recovery in the factory to treat the effluent and dirty solvent which are then reused preventing contamination and pollution of the environment in compliance with NEMA regulations. LED solar lamps have been installed in the entire factory with the aim on conserving energy by using natural resources. Roof-top rain water harvesting has been initiated, a technique used for collecting, storing and using rain water. We are ISO14001:2004 certified hence maintain a structured Environmental Management based on continued improvement performance on our production processes and activities. In 2014, Crown Paints invested in destitute and underprivileged children through feeding programmes, talent development, school fees support and transformation of learning environment.

As part of our commitment to support the needy in society and enhance the environment in which we operate, we joined hands with the Rotary Club International by donating towards projects in line with their mission "service above self". We also participated in tree planting initiatives, children feeding programmes, painting projects in Mumias Kids Center and talent development for example Vikings girls' hockey team, school fees support through institutions like AMMA Charitable Trust and KANBIS sports club for girl child education support and transformation of learning environments.

Crown Paints committed a sizable budget to painting several schools countrywide. The projects included, Nyawara Primary School in Kisumu, Ongalo Secondary School in Kisumu, Maralal Primary School (this was a partnership with MTN Business Kenya), Amrita School in Nairobi, Nkubu Special School in Meru, amongst others.

In July 2014, Crown Paints rewarded their loyal painters with a World Cup celebration like no other. Painters from TEAM KUBWA were invited to Nyayo stadium to watch one of the Quarter Finals matches on big screen.

This year, I will be celebrating 10 years since I joined Crown Paints. It has been a good journey, decorated with myriads of milestones. In that period, Crown Paints' profitability has increased from KSh. 33million to KSh. 330million, while turnover has grown from KSh. 2billion to KSh. 6billion. We currently export 300,000 litres of paint per month to Congo, Burundi, Somali and South Sudan.

Going forward, we intend to triple our turnover in the next 10 years, consolidate our regional presence and increase our market share. We shall strive to enhance product knowledge to users and customers, as well as nurture long term relationships with our existing customers. We intend to improve our focus on automotive paints, fashion paints, decorative paints and exterior finishes. As a company, our focus will always be to transform the lives of the underprivileged, painters, and to support women entrepreneurship.

I would like to close by thanking all our stakeholders, our Customers, Dealers, Business Partners and the employees of Crown Paints Family who have contributed to the success of Our Proud Organization. Your continued support in the past and also in future is needed for the Company while growing from strength to strength.

Thanking you again.

Rakesh Rao
Group CEO - Crown Paints Kenya Limited

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 7 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 the leadership necessary 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 note 7 on report of director's page 13.

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 Managing Director 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.

Corporate Governance (cont'd)

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 (iv) page 57 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Crown Paints Kenya Ltd Share Register
Periodic Report for March 2015

Top 30 Shareholders

Rank	Name	Residence	Total Shares	%
1	Crown Paints And Building Products Limited	LC	11,402,855	48.06%
2	Barclay Holdings Limited	FC	3,234,000	13.63%
3	Beaumont Properties Limited	FC	2,953,816	12.45%
4	Lansbury Limited	LC	1,389,926	5.86%
5	Paul Wanderi Ndungu	LI	284,814	1.20%
6	Mahendra Dahyabhai Patel	LI	224,020	0.94%
7	Mahendra Fulchand Gandhi and Mrs Malvika Mahendra Gandhi	LI	200,939	0.85%
8	CFC Stanbic Nominees Ltd A/C R3439358	LC	195,500	0.82%
9	Kanaksinh Karsandas Babla & Sandip Kanaksinh Babla	LI	101,200	0.43%
10	DSL Mominees Ltd A/C Orchard Estate Ltd	LC	93,396	0.39%
11	Crown Paints And Building Products Ltd	LC	84,600	0.36%
12	Minesh Mulchand Shah	LI	80,344	0.34%
13	Savitaben Velji Raichand Shah	LI	73,425	0.31%
14	Kanta K Shah	LI	71,900	0.30%
15	Zaverchand Punja Warehouses Ltd	LC	70,400	0.30%
16	John Okuna Ogango	LI	57,000	0.24%
17	Minesh M. Shah	LI	49,286	0.21%
18	Bijal Mulchand Shah	LI	49,104	0.21%
19	Anantrai Laxmidas Lakhani	LI	44,000	0.19%
20	Prafulkumar Hemraj Shah	LI	41,980	0.18%
21	Mahendra Kumar Manilal Shah	LI	39,500	0.17%
22	Nishitkumar Ramniklal Shah	LI	38,300	0.16%
23	Abdulrasul Ismail Thawer	FI	36,850	0.16%
24	Sanjay Gulabsi Bhatia & Mrs Hemanti Sanjay Bhatia	LI	33,000	0.14%
25	Ramaben Sumantrai Patel	LI	32,000	0.13%
26	Chetan Mulchand Narshi Shah	LI	31,863	0.13%
27	Shazique Enterprises Limited	LC	31,570	0.13%
28	Paresh P Upadhyay & Hasmukh A Joshi	LI	29,700	0.13%
29	Sureshchandra Raichand Shah	LI	27,709	0.12%
30	Sarojben Prafulkumar Shah	LI	27,340	0.12%

Shares selected	**21,030,337**	**88.63%**
Shares not selected - 2433 shareholders	**2,696,663**	**11.37%**
Shares issued	**23,727,000**	**100.00%**
Total Number Of Crown Paints shareholders	**2,463**	
No. of Crown Paints shareholders at the CDSC	**1,637**	
No. of Crown Paints shares held at the CDSC	**7,630,186**	

ANALYSIS BY DOMICILE

Domicile	Shares	%	Holders
Foreign Companies	6,190,416	26.09%	4
Foreign Individuals	111,975	0.47%	21
Local Companies	13,576,273	57.22%	187
Local Individuals	3,848,336	16.22%	2,251
Total	**23,727,000**	**100.00%**	**2,463**

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

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
Kenya-Re Towers, Upperhill
P.O. Box 44286 - 00100
Nairobi.

Report of the Directors

The directors submit their report and the consolidated audited financial statements for the year ended 31 December 2014, which show the state of the Group's and Company's affairs.

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 18.

3. **Company results**
   The results for the year are set out on page 22.

4. **Dividends**
   Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 1.75 (2013: KShs 1.75) per share amounting to KShs 41,522,250 (2013: KShs 41,522,250).

5. **Financial statements**
   At the date of this report, the directors were not aware of any circumstances, which would have rendered the values attributed to assets and liabilities in the financial statements of the Group and the Company misleading.

6. **Reserves**
   The reserves of the Group and the Company are set out on note 13, page 59.

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

M. Charania	-	Chairman (Non-executive)
R.K. Rao	-	Chief Executive Officer
F.G.K. Maina	-	Non-executive
P.M. Mwati	-	Executive
H.H.R.J. Charania	-	Executive
Anne Amadi	-	Resigned- 26 June 2014
Stephen Bwire Oundo	-	(Non-executive) Appointed - 29 April 2015

8. **Auditors**
   Ernst & Young have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act.

9. **Going concern**
   The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Further, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability 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
30 April 2015

Statement of Directors' Responsibilities
on the consolidated financial statements

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give fair view of the state of financial affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group and the Company for that year. It also requires that the directors ensure that the Group and the Company keep proper accounting records, which disclose, with reasonable accuracy, the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for the annual consolidated and Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the consolidated financial statements, present fairly, in all material respects, the state of the financial affairs of the Group and the Company and of their operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the consolidated financial statements, as well as adequate systems of internal control.

No events after reporting date require adjustment to, or disclosure in, the financial statements.

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

Director

Director
30 April 2015

Report of the Independent Auditors to the Members of Crown Paints Kenya Limited and subsidiaries

Report on the consolidated financial statements

We have audited the consolidated and separate financial statements of Crown Paints Kenya Limited (the company) and its subsidiaries (together, the Group), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 17 to 75.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Report of the Independent Auditors to the Members of Crown Paints Kenya Limited and subsidiaries (cont'd.)

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2014, and of the Group's and Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal and regulatory requirements

As required by the Kenyan Company's Act, we report to you, based on our audit that:

i) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Group and the Company, so far as appears from our examination of those books; and,

iii) The Group's and the Company's statements of financial position and statements of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Peter N. Anchinga Practising Certificate No. 1426

Nairobi
30 April 2015

Consolidated Statement of Financial Position
as at 31 December 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	936,764	736,506
Intangible assets	4	40,913	32,816
Prepaid leases	5	8,494	8,759
		986,171	778,081
CURRENT ASSETS			
Inventories	8	1,285,040	898,871
Trade and other receivables	9	1,198,990	1,020,826
Amounts due from related parties	10(i)	222,483	98,960
Cash and cash equivalents	29	138,525	148,696
Current tax recoverable	11	21,605	-
		2,866,643	2,167,353
TOTAL ASSETS		**3,852,814**	**2,945,434**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	118,635	118,635
Reserves	13	1,228,696	1,243,079
		1,347,331	1,361,714
NON-CURRENT LIABILITIES			
Deferred tax	15	4,925	14,922
CURRENT LIABILITIES			
Bank overdraft	16	310,657	80,498
Interest bearing loans and borrowings	17	264,104	189,175
Commercial paper	18	610,253	258,918
Amounts due to related parties	10(ii)	150,240	70,369
Trade and other payables	19	1,165,304	945,472
Current tax payable	11	-	24,366
		2,500,558	1,568,798
TOTAL EQUITY AND LIABILITIES		**3,852,814**	**2,945,434**

The financial statements were approved by the Board of Directors on 30th April 2015 and signed on its behalf by:

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2014

	Note	2014 KShs'000	2013 KShs'000
REVENUE	20	6,039,061	5,158,992
COST OF SALES	21	(3,665,796)	(3,328,782)
GROSS PROFIT		2,373,265	1,830,210
OTHER INCOME	22	144,397	83,738
		2,517,662	1,913,948
EXPENSES:-			
Administration and establishment	23	(1,260,087)	(970,963)
Selling and distribution	24	(1,018,206)	(579,441)
Finance costs	25	(87,888)	(30,102)
		(2,366,181)	(1,580,506)
PROFIT BEFORE TAX	27	151,481	333,442
TAX EXPENSE	11	(131,766)	(119,599)
PROFIT FOR THE YEAR		19,715	213,843
ATTRIBUTABLE TO:			
Owners of the parent		19,715	213,843
Non- Controlling interest		-	-
		19,715	**213,843**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		3,257	(2,575)
Income tax effect		-	-
		3,257	(2,575)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		3,257	(2,575)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**22,972**	**211,268**
ATTRIBUTABLE TO:			
Owners of the parent		22,972	211,268
Non- Controlling interest		-	-
		22,972	**211,268**
Basic and diluted earnings per share (KShs)	28	0.83	9.01

Consolidated Statement of Changes in Equity
For the year ended 31 December 2014

	Note	Share Capital KShs'000	Share Premium KShs'000	Revaluation Premium KShs'000	Foreign Currency translation KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2013		118,635	80,174	128,593	9,149	839,651	1,176,202
Profit for the year		-	-	-		213,843	213,843
Other comprehensive income		-	-	-	(2,575)	-	(2,575)
Total comprehensive income		-			(2,575)	213,843	211,268
Transfer of excess depreciation - 2013		-	-	(13,010)	-	13,010	-
Deferred tax on excess depreciation 2012			-	-	-	3,903	3,903
final dividend paid	14	-	-	-	-	(29,659)	(29,659)
At 31 December 2013		**118,635**	**80,174**	**115,583**	**6,574**	**1,040,748**	**1,361,714**
At 1 January 2014		118,635	80,174	115,583	6,574	1,040,748	1,361,714
Profit for the year		-	-	-		19,715	19,715
Other comprehensive income		-	-	-	3,257	-	3,257
Total comprehensive Income		-	-		3,257	19,715	22,972
Transfer of excess depreciation - 2014		-	-	(13,890)	-	13,890	-
Deferred tax on excess depreciation		-	-	-	-	4,167	4,167
2013 final dividend paid	14	-	-	-	-	(41,522)	(41,522)
At 31 December 2014		**118,635**	**80,174**	**101,693**	**9,831**	**1,036,998**	**1,347,33**

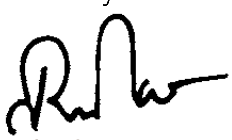
Consolidated Statement of Cash Flows
for the year ended 31 December 2014

OPERATING ACTIVITIES	Note	2014 KShs'000	2013 KShs'000
Profit before tax		151,481	333,442
Adjustments for:-			
Depreciation	3	119,927	92,744
Amortisation of intangible assets	4	11,186	8,872
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		14,465	9,639
Interest expense	25	87,888	30,102
Interest income	22	(2,429)	(1,563)
Gain on disposal of property, plant and equipment	22	(3,506)	(279)
Operating profit before working capital changes		379,277	473,222
Increase in trade and other receivables		(179,101)	(314,728)
Increase in inventories		(386,169)	(208,158)
Increase in trade and other payables		219,823	328,580
Increase in due from related party balances		(123,523)	(83,047)
Increase/ (decrease) in due to related party balances		79,871	(85,099)
Cash (used in)/ generated from operations		(9,822)	110,770
Income tax paid	11	(183,566)	(158,817)
Interest received	22	2,429	1,563
Interest paid	25	(87,888)	(30,102)
Net cash used in operating activities		(278,847)	(76,586)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(320,602)	(190,359)
Purchase of intangible assets	4	(19,228)	(21,228)
Proceeds on sale of property, plant and equipment		6,106	951
Investment in subsidiary		(1,293)	-
Net cash used in investing activities		(335,017)	(210,636)
FINANCING ACTIVITIES			
Loan proceeds		815,519	708,183
Loan payment		(740,590)	(673,362)
Borrowings on commercial paper		1,827,599	437,660
Commercial paper payment		(1,476,264)	(247,300)
Dividends paid on ordinary shares	14	(41,522)	(29,659)
Net cash generated from financing activities		384,742	195,522
Net decrease in cash and cash equivalents		(229,122)	(91,700)
Cash and cash equivalents at the beginning of the year		68,198	172,112
Foreign translation currency reserve		3,257	(2,575)
Effect of exchange rate changes on cash & cash equivalents		(14,465)	(9,639)
Cash and cash equivalents at the end of the year	**29**	**(172,132)**	**68,198**

Company Statement of Financial Position
as at 31 December 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3	843,880	682,452
Intangible assets	4	39,592	32,440
Prepaid leases on land	5	8,494	8,759
Investments in subsidiary companies	6	48,512	47,219
Deposit for shares	7	204,028	204,028
		1,144,506	974,898
CURRENT ASSETS			
Inventories	8	1,110,571	787,834
Trade and other receivables	9	941,427	907,726
Amounts due from related parties	10(i)	984,170	418,807
Current tax recoverable	11	19,427	-
Cash and cash equivalents	29	92,787	107,133
		3,148,382	2,221,500
TOTAL ASSETS		**4,292,888**	**3,196,398**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	12	118,635	118,635
Reserves	13	1,744,356	1,562,114
		1,862,991	1,680,749
NON CURRENT LIABILITIES			
Deferred tax	15	4,925	14,922
CURRENT LIABILITIES			
Bank overdraft	16	297,395	80,498
Interest bearing loans and borrowings	17	264,104	189,175
Commercial paper	18	610,253	258,918
Trade and other payables	19	1,063,671	846,116
Amounts due to related parties	10(ii)	189,549	101,622
Current tax payable	11	-	24,398
		2,424,972	1,500,727
TOTAL EQUITY AND LIABILITIES		**4,292,888**	**3,196,398**

The financial statements were approved by the Board of Directors on 30th April 2015 and signed on its behalf by: -



Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Company Statement of Comprehensive Income
for the year ended 31 December 2014

	Note	2014 KShs'000	2013 KShs'000
REVENUE	20	5,804,909	5,005,269
COST OF SALES	21	(3,577,832)	(3,283,198)
GROSS PROFIT		2,227,077	1,722,071
OTHER INCOME	22	128,960	77,607
		2,356,037	1,799,678
EXPENSES: -			
Administration and establishment	23	(1,075,991)	(889,230)
Selling and distribution	24	(841,105)	(521,810)
Finance costs	25	(87,578)	(30,102)
		(2,004,674)	(1,441,142)
PROFIT BEFORE TAX	27	351,363	358,536
TAX EXPENSE	11	(131,766)	(119,599)
PROFIT FOR THE YEAR		219,597	238,937
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:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**219,597**	**238,937**
Basic and diluted earnings per share (KShs)	28	9.26	10.07

Company Statement of Changes in Equity
for the year ended 31 December 2014

	Note	Share Capital KShs'000	Share Premium KShs'000	Revaluation Premium KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2013		118,635	80,174	168,969	1,099,787	1,467,565
Profit for the year		-	-	-	238,937	238,937
Other comprehensive income		-	-	-	-	-
Total comprehensive income			-	-	238,937	238,937
Transfer of excess depreciation - 2013				(13,010)	13,010	-
Deferred tax on excess depreciation			-	3,906		3,906
2012 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2013		**118,635**	**80,174**	**155,959**	**1,325,981**	**1,680,749**
At 1 January 2014		118,635	80,174	155,959	1,325,981	1,680,749
Profit for the year		-	-	-	219,597	219,597
Other comprehensive income		-	-	-	-	-
Total comprehensive income			-	-	219,597	219,597
Transfer of excess depreciation- 2014				(13,890	13,890	-
Deferred tax on excess depreciation				-	4,167	4,167
2013 final dividend paid	14	-	-	-	(41,522)	(41,522)
At 31 December 2014		**118,635**	**80,174**	**142,069**	**1,522,113**	**1,862,991**

Company Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014	2013
OPERATING ACTIVITIES		**KShs'000**	**KShs'000**
Profit before tax		351,363	358,536
Adjustments for:-			
Depreciation on property, plant and equipment	3	98,814	81,533
Amortisation of intangible assets	4	10,784	8,619
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange gain		8,873	6,706
Interest expense	25	87,578	30,102
Interest income	22	(2,429)	(1,563)
Gain on disposal of property, plant and equipment	22	(1,540)	(255)
Operating profit before working capital changes		553,708	483,943
Increase in trade and other receivables		(33,698)	(277,358)
Increase in inventories		(322,737)	(161,854)
Increase in trade and other payables		217,551	255,173
Increase in amounts due from related parties		(565,363)	(156,280)
Increase/ (decrease) in amounts due to related parties		87,927	(68,843)
Cash (used in)/ generated from operations		(62,612)	74,781
Income tax paid	11	(181,420)	(158,785)
Interest received	22	2,429	1,563
Interest paid	25	(87,578)	(30,102)
Net cash used in operating activities		(329,181)	(112,543)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(261,958)	(161,686)
Purchase of intangible assets	4	(17,936)	(21,228)
Proceeds from sale of property, plant and equipment		3,256	609
Investment in subsidiary	6	(1,293)	(24,881)
Net cash used in investing activities		(277,931)	(207,186)
FINANCING ACTIVITIES			
Loan proceeds		815,519	708,183
Loan payment		(740,590)	(673,363)
Borrowings on commercial paper		1,827,599	437,660
Commercial paper payment		(1,476,264)	(247,300)
Dividends paid on ordinary shares	14	(41,522)	(29,659)
Net cash generated from financing activities		384,742	195,521
Net decrease in cash and cash equivalents		(222,370)	(124,208)
Cash and cash equivalents at the beginning of the year		26,635	157,549
Effect of exchange rate changes on cash and cash equivalents		(8,873)	(6,706)
Cash and cash equivalents at the end of the year	**29**	**(204,608)**	**26,635**

Notes to the Financial Statements
for the year ended 31 December 2014

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS and interpretations, which were effective on 1 January 2014:

Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. No provisions for impairment for non-fixed assets have been made in the financial statements. These amendments would continue to be considered for future disclosures.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company and Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company and Group, since none of the entities in the Group have any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company and Group as the Company and Group have no derivatives nor do hedge accounting. .

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no material impact on the Company and Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 during the year.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company and Group as the short-term receivables and payables are measured at invoice amounts.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company and Group, since the Company and Group are existing IFRS preparers.

Standards issued but not yet effective

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

IAS 1 Disclosure Initiative – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016

Key requirements

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 OCI 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 OCI 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.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception –

Amendments to IFRS 10, IFRS 12 and IAS 28

Effective for annual periods beginning on or after 1 January 2016. The Group and Company have assessed the impact of the above amendments and do not expect them to have an impact on the Group and Company

Key requirements

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 (in IFRS 10.4) 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

Standards issued but not yet effective (cont'd)

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.

2012-2014 cycle (issued in September 2014)

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

IFRS 5 Non-Current Assets
Held for Sale and Discontinued Operations

Changes in methods of disposal

- Assets (or disposal groups) are generally disposed of either through sale or distribution to 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.
- The amendment must be applied prospectively

IFRS 7 Financial Instruments: Disclosures
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.B30 and IFRS 7.42C in order to assess whether the disclosures are required.
  The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Applicability of the offsetting disclosures 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.
- The amendment must be applied retrospectively.

IAS 19 Employee Benefits Discount rate: regional market issue

- 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.
- The amendment must be applied prospectively.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

IAS 34 Interim Financial Reporting

Disclosure of information 'elsewhere in the interim financial report'

- 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.
- The amendment must be applied retrospectively.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. IFRS 9, as issued in July 2014, reflects the completion of all the phases of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, impairment as well as hedge accounting.

Impact
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 Company and Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The company is still in the process of determining the impact of the new requirements of the standard.

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 other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company and Group are existing IFRS preparers, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company and Group, since none of the entities within the Group has defined

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

benefit plans with contributions from employees or third parties. The Company and Group operate a defined contribution provident fund.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company and Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. No operating segments have been aggregated to form the operating segments in Note 34. The amendment will have no impact as segments are not aggregated
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities (Note 34).

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

Annual improvements 2011-2013 Cycle

These improvements (which are not new issued standards) are effective from 1 July 2014 and are not expected to have a material impact on the Company and Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company and Group are currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date.

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 re-measured 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (cont'd)

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 effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company and Group.

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. These amendments are not expected to have any impact to the Group given that the Company and Group have not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company and Group as the Company and Group do not have any bearer plants.

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. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

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 as modified by the revaluation of certain plant, property and equipment. 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.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014.

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.

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

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Reclassifies the parent's share of components previously recognised in OCI to profit or lossor 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.

(ii) 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 retranslation 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).

(iii) 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.

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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

d) Revenue recognition (cont'd)

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 revenue 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.

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

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Taxation (cont'd)

- 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.

g) 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) Property, plant and equipment (cont'd)

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:

Buildings	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.

h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Leases (cont'd)

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.

i) 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. There were no borrowing costs capitalized during the year ended 31 December 2014.

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.

j) 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 the expense category consistent with the function of the intangible asset.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Intangible assets (cont'd)

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 1(m).

k) 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.

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 and loans and receivables.

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,

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Financial instruments – initial recognition and subsequent measurement (cont'd)

i) Financial assets (cont'd)

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 the statement of comprehensive income as part of other operating expenses.
Bad debts are written off after all efforts of recovery have been exhausted.

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.

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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Financial instruments – initial recognition and subsequent measurement (cont'd)

ii) Impairment of financial assets (cont'd)

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.

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, commercial paper 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Financial instruments – initial recognition and subsequent measurement (cont'd)

ii) Financial liabilities (cont'd)

Loans and borrowings

Interest bearing loans, overdrafts and commercial paper 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.

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

v) Fair value of financial instruments

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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

v) Fair value of financial instruments (cont'd)

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 32.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m) Impairment of non-financial assets (cont'd)

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. 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.

o) Provisions

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

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

p) Employee benefits (cont'd)

Statutory pension scheme
The Group also makes contributions to the statutory defined contribution schemes in the three 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.

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 31 for disclosure on the lease commitments.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

r) Significant accounting judgements, estimates and assumptions (cont'd)

(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 note 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 last revalued on 1 December2011. The assets were valued on the basis of open market value by independent valuers, Real Appraisal Limited.

Further details on property, plant and equipment are given in Note 3.

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, 6, and 8. 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

r) Significant accounting judgements, estimates and assumptions (cont'd)

Impairment losses (cont'd)

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.

Contingent liabilities

As disclosed in Note 31 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.

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 2014 (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT

(a)GROUP – Year ended 31 December 2014

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2014	25,528	417,851	377,402	167,774	456,129	-	1,444,684
Additions	-	39,135	20,397	44,272	179,269	37,529	320,602
Transfer from WIP	-	-	-	-	-	-	-
Disposals	-	-	(660)	(4,692)	(695)	-	(6,047)
Exchange differences	-	-	(980)	(786)	4,116	-	2,350
At 31 December 2014	25,528	456,986	396,159	206,568	638,819	37,529	1,761,589
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	250,624	331,081	181,944	648,144	37,529	1,474,850
	25,528	456,986	396,159	206,568	638,819	37,529	1,761,589
Accumulated depreciation							
At 1 January 2014	-	73,487	241,351	93,856	299,484	-	708,178
Charge for the year	-	7,975	22,676	35,357	53,919	-	119,927
Eliminated on disposals	-	-	(430)	(2,895)	(124)	-	(3,449)
Exchange differences	-	-	(440)	25	584	-	169
At 31 December 2014	-	81,462	263,157	126,343	353,863	-	824,825
Carrying Amount	25,528	375,524	133,002	80,225	284,956	37,529	936,764

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 & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Total KShs'000
Cost	250,624	331,081	181,944	648,144	1,411,793
Accumulated depreciation	(40,469)	(232,123)	(120,186)	(355,025)	(747,803)
	210,155	98,958	61,758	293,119	663,990

*Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Kisumu and 35% payment for fitting Uganda show room. 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 2014 (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a)GROUP – Year ended 31 December 2013

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
At January 2013	20,528	373,739	372,075	128,765	385,610	-	1,280,717
Additions	5,000	44,112	19,765	44,720	76,762	-	190,359
Disposals	-	-	-	(4,289)	-	-	(4,289)
Exchange differences	-	-	(14,438)	(1,422)	(6,243)	-	(22,103)
At 31 December 2013	25,528	417,851	377,402	167,774	456,129	-	1,444,684
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	211,489	312,324	143,150	465,454	-	1,157,945
	25,528	417,851	377,402	167,774	456,129	-	1,444,684
Accumulated depreciation							
At 1 January 2013	-	67,141	232,494	76,029	265,599	-	641,263
Charge for the year	-	7,938	20,241	25,081	39,483	-	92,743
Eliminated on disposals	-	-	-	(3,617)	-	-	(3,617)
Exchange difference	-	(1,592)	(11,384)	(3,637)	(5,598)	-	(22,211)
At 31 December 2013	-	73,487	241,351	93,856	299,484	-	708,178
Carrying Amount	25,528	344,364	136,051	73,918	156,645	-	736,506

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

	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	211,489	312,324	143,150	465,454	-	1,132,417
Accumulated depreciation	(32,494)	(241,352)	(87,699)	(300,651)	-	(662,196)
	178,995	70,972	55,451	164,803	-	470,221

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b)COMPANY – Year ended 31 December 2014

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2014	25,528	417,852	305,196	143,283	431,747	-	1,323,606
Additions	-	39,134	6,669	26,410	154,364	35,381	261,958
Disposals	-	-	-	(3,966)	(696)	-	(4,662)
At 31 December 2014	25,528	456,986	311,865	165,727	585,415	35,381	1,580,902
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	250,624	246,787	141,103	594,740	35,381	1,294,163
	25,528	456,986	311,865	165,727	585,415	35,381	1,580,902
Accumulated depreciation							
At 1 January 2014	-	73,488	192,437	86,199	289,030	-	641,154
Charge for the year	-	7,975	15,698	27,296	47,845	-	98,814
Eliminated on Disposals	-	-	-	(2,822)	(124)	-	(2,946)
At 31 December 2014	-	81,463	208,135	110,673	336,751	-	737,022
Carrying Amount							
At 31 December 2014	25,528	375,523	103,730	55,054	248,664	35,381	843,880

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

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Fittings & equipment KShs'000	Work in Progress KShs'000	Total KShs'000
Cost	-	250,624	246,787	141,103	594,740	-	1,233,254
Accumulated depreciation	-	(37,223)	(172,324)	(98,360)	(339,082)	-	(646,989)
	-	213,401	74,463	42,743	255,658	-	586,265

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b)COMPANY – Year ended 31 December 2013

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Furniture fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2013	20,528	373,740	290,611	117,735	361,690	-	1,164,304
Additions	5,000	44,112	14,585	27,932	70,057	-	161,686
Disposals	-	-	-	(2,384)	-	-	(2,384)
At 31 December 2013	25,528	417,852	305,196	143,283	431,747	-	1,323,606
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	211,490	240,118	118,659	441,072	-	1,036,867
	25,528	417,852	305,196	143,283	431,747	-	1,323,606
Accumulated depreciation							
At 1 January 2013	-	65,550	177,904	66,295	251,902	-	561,651
Charge for the year	-	7,938	14,533	21,934	37,128	-	81,533
Eliminated on Disposals	-	-	-	(2,030)	-	-	(2,030)
At 31 December 2013	-	73,488	192,437	86,199	289,030	-	641,154
Carrying Amount							
At 31 December 2013	25,528	344,364	112,759	57,084	142,717	-	682,452

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

	Freehold Land KShs'000	Buildings KShs'000	Plant & Machinery KShs'000	Motor Vehicles KShs'000	Fittings & equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	-	211,490	240,118	118,659	441,072	-	1,011,339
Accumulated depreciation	-	(29,248)	(156,626)	(73,886)	(291,361)	-	(551,121)
	-	182,242	83,492	44,773	149,71	-	460,218

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

All assets, except freehold land and work in progress, were revalued on 01 December 2011. 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 comparables 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 independent professional valuer, Real Appraisal 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 Africa Limited facilities are secured by debenture of KShs 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
There were no borrowing costs capitalized during the year ended 31 December 2014 (2013: Nil)

(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 the revised International Accounting standards No. 17 (IAS 17), a 99 year lease qualifies for a finance lease classification if the lessor transfers significantly 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

4. INTANGIBLE ASSETS	**GROUP 2014 KShs'000**	**GROUP 2013 KShs'000**	**COMPANY 2014 KShs'000**	**COMPANY 2013 KShs'000**
Cost				
At 1 January	94,314	73,086	93,015	71,787
Additions	19,228	21,228	17,936	21,228
Exchange difference	(17)	-	-	-
At 31 December	113,525	94,314	110,951	93,015
Amortisation				
At 1 January	61,498	52,545	60,575	51,956
Charge for the year	11,186	8,872	10,784	8,619
Exchange difference	(72)	81	-	-
At 31 December	72,612	61,498	71,359	60,575
Carrying Amount	40,913	32,816	39,592	32,440

Intangible assets relate to computer software in use by the Group. The intangible assets have a finite life of 5 years.
There were no borrowing costs capitalized during the year ended 31 December 2014 (2013: Nil)
No intangible assets have been pledged as security (2013:Nil)

5. PREPAID LEASES	**GROUP 2014 KShs'000**	**GROUP 2013 KShs'000**	**COMPANY 2014 KShs'000**	**COMPANY 2013 KShs'000**
Cost				
At 1 January and December	13,000	13,000	13,000	13,000
Amortisation				
At 1 January	4,241	3,976	4,241	3,976
Charge for the year	265	265	265	265
At 31 December	4,506	4,241	4,506	4,241
Carrying Amount	8,494	8,759	8,494	8,759

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 2014 is 32 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2014 is 32 years.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

6. INVESTMENT IN SUBSIDIARIES

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

Details of investment	Country of incorporation	Activity	Holdings %	2014 KShs'000	2013 KShs'000
Crown Paints Allied Industries Limited (10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of adhesives	100	10,000	10,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) (5,000 ordinary shares of KShs 400 each)	Uganda	Selling of auto paints and decorative products	100	2,000	2,000
Crown Paints Tanzania Limited (1,905 ordinary shares of KShs 5,426)	Tanzania	Selling of auto paints and decorative products	100	35,219	35,219
Crown Paints Rwanda Limited (1000 ordinary KShs 1,293)	Rwanda	Selling of auto paints and decorative	100	1,293	-
				48,512	47,219

7. DEPOSIT FOR SHARES

	COMPANY	
	2014 KShs'000	2013 KShs'000
Regal Paints Uganda Limited	80,000	80,000
Crown Paints Allied Industries Limited	124,028	124,028
	204,028	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 Deposit for shares is evaluated by the Company based on assessment of the risk of impairment of the subsidiary companies. As at the close of the year, there were no impairment indicators on the subsidiary companies. The fair value information on the deposits has not been disclosed because their fair value cannot be measured reliably since the underlying shares are not quoted. The company does not intend to dispose of the subsidiaries in the foreseeable future.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

8. INVENTORIES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Finished goods and packaging materials	553,382	435,080	428,827	377,945
Raw materials	568,284	431,682	517,191	376,857
Goods in transit	162,151	60,549	162,204	60,549
Work In progress	24,082	16,306	21,830	16,281
	1,307,899	943,617	1,130,052	831,632
Inventories write-down to NRV	(22,859)	(44,746)	(19,481)	(43,798)
	1,285,040	898,871	1,110,571	787,834

The amount of inventories write-down reversed during the year was KShs. 43,798,000 (2013: KShs 144,000) for the Group and KShs. 43,798,000 (2013: KShs Nil) 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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
At beginning	44,746	44,890	43,798	43,798
Provision for the year	21,911	-	19,481	-
Reversals for write down	(43,798)	(144)	(43,798)	-
	22,859	44,746	19,481	43,798

9. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Trade receivables	1,016,279	925,914	809,418	831,315
Other receivables	93,013	57,908	48,596	46,597
Prepayments	89,698	37,004	83,413	29,814
	1,198,990	1,020,826	941,427	907,726

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 8% pegged on 91 day treasury bill as prescribed by the Commisioner 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 2014, Group trade receivables with initial value of KShs 245,147,000 (2013: KShs 172,499,000) were fully provided for. The Company trade receivables with initial value of KShs 218,157,000 (2013: KShs 150,500,000) were fully provided for.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

9. TRADE AND OTHER RECEIVABLES (cont'd)

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	
	2014 KShs'000	**2013 KShs'000**	**2014 KShs'000**	**2013 KShs'000**
At beginning	172,499	130,240	150,500	107,161
Charge for the year (Note 24)	114,286	76,921	108,890	68,295
Used during the year (write-off)	(205)	(9,454)	-	-
Recoveries in the year (note 22)	(41,433)	(25,208)	(41,233)	(24,956)
	245,147	172,499	218,157	150,500
Ageing analysis for trade receivables:				
Less than 60 days (neither past due nor impaired)	778,649	654,882	716,582	631,669
61 days to 90 days	81,149	59,920	33,863	46,980
Over 90 days	401,628	383,611	277,130	303,166
	1,261,426	1,098,413	1,027,575	981,815
Impaired	(245,147)	(172,499)	(218,157)	(150,500)
Total	1,016,279	925,914	809,418	831,315

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:

	2014 KShs'000	**2013 KShs'000**	**2014 KShs'000**	**2013 KShs'000**
Less than 60 days (neither past due nor impaired)	42,853	11,529	255	218
61 days to 90 days	-	246	-	246
Over 90 days	50,160	46,133	48,341	46,133
	93,013	57,908	48,596	46,597
Impaired	-	-	-	-
Total	93,013	57,908	48,596	46,597

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

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 13.69% 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. 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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Receivables from related parties:				
Crown Paints and Building Products Limited	204,205	77,854	204,205	35,667
Regal Paints Uganda Limited	-	-	423,323	304,506
Crown Paints Allied Industries Limited	-	-	127	61,334
Crown Paints – Rwanda	-	4,061	52,469	255
Crown Paints Tanzania Limited	-	-	285,768	-
Border Properties Limited	18,278	17,045	18,278	17,045
	222,483	98,960	984,170	418,807
Ageing analysis				
Less than 60 days (neither past due nor impaired	62,563	7,029	135,784	39,396
61 days to 90 days	4,885	2,335	39,918	22,044
Over 90 days	155,035	89,596	808,468	357,367
	222,483	98,960	984,170	418,807
Impaired	-	-	-	-
Neither past due nor impaired	222,483	98,960	984,170	418,807
(ii) Payables to related parties:				
Crown Paints Allied Industries Limited	-	-	41,034	30,692
Daxian Limited	146,245	70,369	146,245	70,369
Border Properties	2,485	-	-	-
Regal Paints Uganda Limited	-	-	760	-
Crown Paints and Building Products Limited	1,510	-	1,510	561
	150,240	70,369	189,549	101,622

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
(iii) Sale and services rendered:				
Crown Paints Allied Industries Limited	-	-	7,489	5,375
Crown Paints Rwanda Limited	-	-	31,459	-
Regal Paints Uganda Limited	-	-	183,572	149,112
Crown Paints Tanzania Limited	-	-	141,943	60,232
Crown Paints and Building Products Limited	-	38	-	38
Purchase of goods				
Crown Paints Allied Industries Limited	-	-	50,318	50,318
Regal Paints Uganda Limited	-	-	139	139
Services rendered				
Daxian Limited	119,954	162,334	119,954	162,334
Crown Paints and Building Products Limited	16,566	5,700	16,566	5,700

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

Border Properties Limited is an associate company registered in Uganda in 2013. The company is yet to start operations. The balance was advanced to facilitate acquisition of land in Uganda. Crown Paints Kenya Limited owns 49% of the company.

(iv) Key management personnel compensation

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Short term employee benefits	183,836	160,826	183,836	160,826
Defined contribution plan	5,176	4,416	5,176	4,416
	189,012	165,242	189,012	165,242
Directors' remuneration				
Fees for services as directors	7,038	6,213	7,038	6,213
Other emoluments (included in key management compensation above)	93,507	100,347	93,507	100,347
	100,545	106,560	100,545	106,560
Loans to related parties	-	7,164	-	7,164
Directors	6,800	9,252	6,800	9,252

Key management personnel comprise heads of departments and senior managers of the Group.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(iv) Key management personnel compensation (cont'd)

Terms and conditions of transactions with related parties
Amount 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 8% for a period not exceeding 36 months. The loans are secured against the log books. The other amount due to or from related parties are not secured.
For the year ended 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013: 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.

11. TAXATION

	GROUP		COMPANY	
	2014 KShs'000	**2013 KShs'000**	**2014 KShs'000**	**2013 KShs'000**
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	24,366	35,057	24,398	35,057
Charge for the year	137,595	153,887	137,595	153,887
Over- provision in previous year	-	(5,761)	-	(5,761)
Payments during the year	(183,566)	(158,817)	(181,420)	(158,785)
Current tax (recoverable)/ payable	(21,605)	24,366	(19,427)	24,398
STATEMENT OF COMPREHENSIVE INCOME				
Current tax at 30 % on the taxable profit for the year	137,596	153,887	137,596	153,887
Over- provision in previous year	-	(5,761)	-	(5,761)
Deferred tax credit	(5,830)	(28,527)	(5,830)	(28,527)
	131,766	119,599	131,766	119,599
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	151,481	333,442	351,363	358,536
Tax at applicable rate of 30%	45,444	100,033	105,409	107,563
Tax effect on items not eligible for tax purposes	86,322	25,327	26,357	17,797
Over- provision in previous year	-	(5,761)	-	(5,761)
	131,766	119,599	131,766	119,599

No provision has been made for a deferred tax asset relating to the subsidiaries amounting KShs 208,778,745 because it is not expected that the companies will have taxable profits in the foreseeable future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to KShs 380,732,063 and can be carried forward for a maximum period of 5 years in accordance with Kenyan and Rwandan tax laws and indefinitely for Tanzania and Uganda.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

12. SHARE CAPITAL

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Authorised: 40,000,000 ordinary shares of KShs.5 each (2013; 25,000,000 ordinary shares of KShs.5 each)	200,000	125,000	200,000	125,000
Issued and fully paid: 23,727,000 (2013: 23,727,000) ordinary shares of KShs.5 each	118,635	118,635	118,635	118,635

13. RESERVES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	101,693	115,583	142,069	155,959
Foreign currency translation reserve	9,831	6,574	-	-
Retained earnings	1,036,998	1,040,748	1,522,113	1,325,981
	1,228,696	1,243,079	1,744,356	1,562,114

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 share 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.

14. DIVIDENDS

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Final dividend for 2013 KShs. 1.75 per share (2012: KShs. 1.25 per share)	41,522	29,659	41,522	29,659
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December) Dividend on ordinary shares KShs 1.75 per share (2013: KShs 1.75 per share)	41,522	41,522	41,522	41,522

(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 2014 (cont'd)

15. DEFERRED TAX LIABILITY

Movements in deferred tax during the year were as follows

	Balance at 1 January KShs'000	Statement of Comprehensive income KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Year ended 31 December 2014				
Accelerated capital allowances	55,545	2,232	-	57,777
Unrealised exchange loss	-	(2,662)	-	(2,662)
Revaluation reserve	45,791	-	(4,167)	41,624
Allowance for doubtful debts	(45,147)	(20,297)	-	(65,444)
Provisions for staff leave	(9,294)	(2,837)	-	(12,131)
Provision for bonus accrual	(18,834)	18,834	-	-
Provision for obsolete stock	(13,139)	7,490	-	(5,649)
Provision for rebates	-	(8,590)	-	(8,590)
	14,922	(5,830)	(4,167)	4,925
Year ended 31 December 2013				
Accelerated capital allowances	55,832	(287)	-	55,545
Unrealised exchange gain	(5,869)	5,869	-	-
Revaluation reserve	49,694	-	(3,903)	45,791
Allowance for doubtful debts	(32,147)	(13,000)	-	(45,147)
Provisions for staff leave	(10,021)	(8,813)	-	(18,834)
Provision for bonus accrual	(5,698)	(3,596)	-	(9,294)
Provision for obsolete stock	(4,438)	(8,701)	-	(13,139)
	47,353	(28,528)	(3,903)	14,922

16. BANK OVERDRAFT

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Bank overdraft	310,657	80,498	297,395	80,498

The bank overdraft facility is to the extent of: Barclays Bank Limited - KShs 25 million, Kenya Commercial Bank Limited (KCB) - KShs 150 million and USD 2 million and Commercial Bank of Africa (CBA) - KShs 110 million. The KCB and CBA facilities are secured by debenture of KShs 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road. The Barclays Bank Limited overdraft facility is unsecured.

The weighted average interest rate on the overdraft at year-end was 14% (2013: 14%). The bank overdrafts are reviewed annually and payable on demand.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

17. INTEREST BEARING LOANS AND BORROWINGS

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Amounts falling due within one year	264,104	189,175	264,104	189,175

The loan facilities relate to post import financing from Kenya Commercial Bank Limited and Commercial Bank of Africa for a period not exceeding 3 months and are secured pari-passu by debenture of KShs. 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.

The weighted average interest rate on the loan at year-end was 9% (2013: 9%).

18. COMMERCIAL PAPER

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Amounts falling due within one year	610,253	258,918	610,253	258,918

The commercial paper is a non-secured facility and is repayable on maturity of the facility. The interest rate on the commercial paper is at treasury bills interest rate plus 1.5% and the commercial paper are for 365 days period.

19. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Amounts falling due within one year				
Trade payables	1,036,474	699,221	955,218	609,383
Other payables	62,200	42,277	54,652	38,914
Accruals	66,630	203,974	53,801	197,819
	1,165,304	945,472	1,063,671	846,116

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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Decorative paints	5,056,160	4,442,482	4,914,640	4,283,008
Industrial paints	620,502	481,244	591,274	481,244
Automotive paints	232,401	171,177	219,414	171,177
Adhesives	129,998	64,089	79,581	69,840
	6,039,061	5,158,992	5,804,909	5,005,269

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

21. COST OF SALES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Raw materials	3,368,408	2,901,940	3,321,222	2,879,119
Salaries and wages	128,622	110,770	118,597	104,656
Depreciation on plant and machinery	30,827	30,546	23,673	24,838
Machinery repairs and maintenance	52,447	42,369	52,065	41,972
Fuel, water and electricity	22,999	21,132	19,323	18,735
Others	62,493	222,025	42,952	213,878
	3,665,796	3,328,782	3,577,832	3,283,198

22. OTHER INCOME

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Gain on disposal of plant and equipment	3,506	279	1,540	255
Interest income	2,429	1,563	2,429	1,563
Miscellaneous income	60,585	15,348	59,025	13,213
Operating lease revenue	13,776	12,940	10,615	9,838
Doubtful debts write-back	41,433	25,208	41,233	24,956
Forex exchange gain	11,789	16,535	3,239	15,917
Surcharge sales	10,879	11,865	10,879	11,865
	144,397	83,738	128,960	77,607

23. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Staff costs (note 26)	706,265	564,238	606,292	516,200
Depreciation	89,505	62,195	75,142	56,694
Auditors' remuneration	9,267	7,191	5,150	4,900
Directors' emoluments:				
As directors	7,038	6,213	7,038	6,213
As executives	93,507	100,347	93,507	100,347
Legal and professional fees	47,874	11,494	19,060	10,616
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	11,186	8,872	10,784	8,619
Insurance	32,242	25,913	25,930	22,885
Foreign exchange loss	41,15	26,174	35,369	22,623
Office expenses	69,568	57,700	68,739	47,505
Consultancy fees	29,073	18,669	26,540	18,669
Computer costs	30,541	20,820	29,828	20,820
Travel	48,094	35,312	42,081	29,056
Maintenance, subscriptions and donations	14,952	5,893	13,359	5,893
Bank charges	9,147	6,011	7,493	5,242
Others	20,410	13,656	9,414	12,683
	1,260,087	970,963	1,075,991	889,230

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

24. SELLING AND DISTRIBUTION

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Transport	192,813	126,086	162,602	121,974
Advertising and promotion	526,214	287,064	437,302	265,904
Inventory write-downs	19,066	-	18,874	-
Allowance for bad debts	114,286	76,921	108,890	68,295
Write off during the year	567	734	49	734
Depot expenses	158,625	83,804	106,971	60,133
Others	6,635	4,832	6,417	4,770
	1,018,206	579,441	841,105	521,810

25. FINANCE COSTS

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Interest on loan and overdraft	41,184	20,034	40,874	20,034
Commercial paper interest	46,704	10,068	46,704	10,068
	87,888	30,102	87,578	30,102

26. STAFF COSTS

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Salaries	562,663	439,283	484,499	399,250
Defined contribution plan	6,937	1,525	1,023	1,246
Provision for accrued leave	-	17,250	-	16,991
Medical	5,017	4,054	3,427	4,054
Insurance	49,844	37,586	49,318	37,161
Staff meals and other supplies	57,381	46,815	50,867	39,773
Training and development	24,423	17,725	17,158	17,725
	706,265	564,238	606,292	516,200

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

27. PROFIT BEFORE TAX

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
The profit before tax is stated after charging: -				
Depreciation	119,927	92,742	98,814	81,533
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	11,189	8,872	10,784	8,619
Directors emoluments:				
As directors	7,038	6,213	7,038	6,213
As Executives	93,507	100,347	93,507	100,347
Auditors' remuneration	9,267	7,191	5,150	4,900
Finance Costs	87,888	30,102	87,578	30,102
Foreign exchange loss	41,153	26,174	35,369	22,623
And after crediting: -				
Interest income	2,429	1,563	2,429	1,563
Operating lease income	13,776	12,940	10,615	9,838
Gain on disposal of property, plant and equipment	3,506	279	1,541	255
Forex exchange gain	11,789	16,535	3,239	15,917

28. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Net profit attributable to ordinary shareholders	19,715	213,843	219,597	238,937
Weighted average number of ordinary shares in '000'	23,727	23,727	23,727	23,727

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, as shown above. There were no potentially dilutive shares as at 31 December 2014 and as at 31 December 2013.

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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Cash and cash equivalents	138,525	148,696	92,787	107,133
Bank overdraft (Note 16)	(310,657)	(80,498)	(297,395)	(80,498)
	(172,132)	68,198	(204,608)	26,635

30. OTHER FACILITIES GRANTED BY THE BANKERS

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Letters of credit	181,200	147,900	181,200	147,900
Guarantees given by bankers	20,000	20,000	20,000	20,000
	201,200	167,900	201,200	167,900

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. COMMITMENTS AND CONTINENCES

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 four years three months. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market condition.

The total future minimum rentals receivable from third parties under non-cancellable operating leases is as follows:

	GROUP		COMPANY	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Within 1 year	14,462	8,988	11,198	5,892
Within 5 years	29,833	51,374	22,494	38,216
	44,295	60,362	33,692	44,108

(b) Contingent Liabilities

The Group had no contingent liabilities as at year end (2013: Nil).

(c) Legal matters

The Group is involved in a number of legal proceedings which are yet to be concluded upon. The Directors have evaluated the pending cases and determined that no material liabilities are likely to arise from these cases which arose in the normal course of business.

(d) The Group capital commitments as at year end were KShs 300 million for the construction of a factory in Kisumu. (2013: Nil)

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 commercial paper. 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 rate 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 17%. CBA USD base lending rate is 6.25% and KCB 9%. The interest on the commercial paper 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 KShs'000**	**Effect on profit before tax KShs'000**	**Effect on equity KShs'000**
2014	Increase by 2%	17,487	12,241	17,487	12,241
	Decrease by 2%	(17,487)	(12,241)	(17,487	(12,241)
2013	Increase by 2%	8,962	6,273	8,962	6,273
	Decrease by 2%	(8,962)	(6,273)	(8,962)	(6,273)

Fair values of financial instruments

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

Credit risk

The Group trades only with recognised, creditworthy third parties. 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 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Credit risk (cont'd)

The amount that best represents the Group's and company's maximum exposure to the credit risk as at 31 December 2014 is made up as follows:

GROUP

As at 31 December 2014	Neither past nor impaired Less than 60 days Total KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 day KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	778,649	81,149	401,628	(245,147)	1,016,279
Other receivables	42,853	-	50,160	-	93,013
Amount due from related party	62,563	4,885	155,035	-	222,483
Bank balances and cash	138,525	-	-	-	138,525
	1,022,590	86,034	606,823	(245,147)	1,470,300

COMPANY

As at 31 December 2014	Neither past nor impaired Less than 60 days Total KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 day KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	716,582	33,863	277,130	(218,157)	809,418
Other receivables	255	-	48,341	-	48,596
Amount due from related party	135,784	39,918	808,468	-	984,170
Bank balances and cash	92,787	-	-	-	92,787
Deposit for shares	-	-	204,028	-	204,028
	945,408	73,781	1,337,967	(218,157)	2,138,999

The amount that best represents the Group's and company's maximum exposure to the credit risk as at 31 December 2013 is made up as follows:

GROUP

As at 31 December 2013	Neither past nor impaired Less than 60 days Total KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 day KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	654,882	59,920	383,611	(172,499)	925,914
Other receivables	11,529	246	46,133	-	57,908
Amount due from related party	7,029	2,335	89,596	-	98,960
Bank balances and cash	148,696	-	-	-	148,696
	822,136	62,501	519,340	(172,499)	1,231,478

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Credit risk (cont'd)

COMPANY:

As at 31 December 2013	Neither past nor impaired Less than 60 days Total KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 day KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	631,669	46,980	303,166	(150,500)	831,315
Other receivables	218	246	46,133	-	46,597
Amount due from related party	39,396	22,044	357,367	-	418,807
Bank balances and cash	107,133	-		-	107,133
	778,416	69,270	706,666	(150,500)	1,403,852

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.

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	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Assets in foreign currencies				
Trade and other receivables	53,620	13,998	53,620	13,998
Cash and bank	9,946	19,380	-	16,747
Amounts due from related companies	-	-	-	-
Foreign currency assets	63,566	33,378	53,620	30,745
Liabilities in foreign currencies				
Bank overdraft	(47,899)	-	(46,615)	-
Payables	(459,429)	(248,029)	(450,811)	(118,901)
Commercial paper	(54,634)	-	(54,634)	-
Interest bearing loans and borrowings	(264,104)	(189,173)	(264,104)	(189,173)
Foreign currency liabilities	(826,066)	(437,202)	(816,164)	(308,074)
Net foreign currency (liability) / asset position	(762,500)	(403,824)	762,544)	(277,329)

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).

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Foreign currency risk (cont'd)

		GROUP		COMPANY	
USD		**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
2014	Increase in US$ by 4%	30,500	21,350	30,502	21,351
	Decrease in US$ by 4%	(30,500)	(21,350)	(30,502)	(21,351)
2013	Increase in US$ by 4%	16,153	11,307	11,093	7,765
	Decrease in US$ by 4%	(16,153)	(11,307)	(11,093	(7,765)

Liquidity risk

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

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

GROUP

	<30 days Kshs'000	31-60 days Kshs'000	61- 90 days Kshs'000	1-120 days Kshs'000	>120 day Kshs'000	Total Kshs'000
At 31 December 2014						
Financial Liabilities						
Bank overdraft	(310,657)	-	-	-	-	(310,657)
Interest bearing loan	(70,988)	(130,526)	(12,705)	(20,495)	(29,390)	(264,104)
Commercial paper	(213,006)	(149,068)	(132,806)	(106,735)	(8,638)	(610,253)
Trade and other payables	(379,256)	(311,360)	(345,858)	-	-	(1,036,474)
Other payables	(62,200)	-	-	-		(62,200)
Amounts due to related party	(150,240)	-	-	-	-	(150,240)
Total financial liabilities	(1,186,347)	(590,954)	(491,369)	(127,230)	(38,028)	(2,433,928)

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Foreign currency risk (cont'd)

GROUP

	<30 days Kshs'000	31-60 days Kshs'000	61- 90 days Kshs'000	91-120 days Kshs'000	>120 days Kshs'000	Total Kshs'000
At 31 December 2013						
Financial Liabilities						
Bank overdraft	(80,498)	-	-	-	-	(80,498)
Interest bearing loans	(85,128)	(49,185)	(28,376)	(11,350)	(15,134)	(189,173)
Commercial paper	(116,513)	(67,319)	(38,838)	(15,535)	(20,713)	(258,918)
Trade and other payables	(346,842)	(175,411)	(219,245)	-	-	(741,498)
Amounts due to related parties	(70,369)	-	-	-	-	(70,369)
Total financial liabilities	(699,350)	(291,915)	(286,459)	(26,885)	(35,847)	(1,340,456)

COMPANY	<30 days Kshs'000	31-60 days Kshs'000	61- 90 days Kshs'000	1-120 days Kshs'000	>120 days Kshs'000	Total Kshs'000
At 31 December 2014						
Financial Liabilities						
Bank overdraft	(297,395)	-	-	-	-	(297,395)
Interest bearing loan and borrowings	(70,988)	(130,526)	(12,707)	(20,493)	(29,390)	(264,104)
Commercial paper	(213,006)	(149,068)	(132,806)	(106,735)	(8,638)	(610,253)
Trade payables	(377,336)	(232,592)	(345,290)	-	-	(955,218)
Other payables	(19,454)	(35,198)	-	-	-	(54,645)
Amounts due to related parties	(189,549)	-	-	-	-	(189,549)
Total financial liabilities	(1,167,728)	(547,384)	(490,803)	(127,228)	(38,028)	(2,371,171)

COMPANY	<30 days Kshs'000	31-60 days Kshs'000	61- 90 days Kshs'000	1-120 days Kshs'000	>120 days Kshs'000	Total Kshs'000
At 31 December 2013						
Financial Liabilities						
Bank overdraft	(80,498)	-	-	-	-	(80,498)
Interest bearing loan and borrowings	(85,128)	(49,185)	(28,376)	(11,350)	(15,134)	(189,173)
Commercial paper	(116,513)	(67,319)	(38,838)	(15,535)	(20,713)	(258,918)
Trade payables and other payables	(269,312)	(159,740)	(219,245)	-	-	(648,297)
Amounts due to related party	(101,622)	-	-	-	-	(101,622)
Total financial liabilities	(653,073)	(276,244)	(286,459)	(26,885)	(35,847)	(1,278,508)

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Fair value of assets and liabilities

a) Comparison by class of the carrying amount 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, commercial papers, interest bearing loans and borrowings and amounts due to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

(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:

GROUP	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
31 December 2014				
Property, plant and equipment	-	-	639,454	639,454

COMPANY	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Assets				
Property, plant and equipment	-	-	602,653	602,653

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

The fair values of property, plant and equipment presented in the table above are as at 1 December 2011, the date of valuation. There are no significant differences between the fair values as at the valuation date and the current carrying amounts.

As at 1 December 2011, the properties' fair values were based on valuations performed by Real Appraisal 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.

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

32.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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.

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.

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.

33.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. To maintain 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.

33.CAPITAL RISK MANAGEMENT (cont'd)

	2014 KShs'000	2013 KShs'000
Share capital	118,635	118,635
Share premium	80,174	80,174
Retained earnings	1,040,748	1,036,998
Equity	1,239,557	1,235,807
Total borrowings	874,358	448,091
Less: cash and cash equivalents (note 29)	172,132	(68,198)
Net debt	1,046,490	379,893
Total capital	2,286,047	1,615,700
Gearing ratio	45.78%	23.51%

34.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.
Transfer prices between the operating segments are set on commercial terms in a manner similar to transactions with third parties. 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 the basis on which it reports its primary segment information.

Segment information is as presented below.

31 December 2014 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	4,584,737	71,558	(803,481)	3,852,814
Deposit for shares	204,028	-	(204,028)	-
Investment in subsidiary	48,512	-	(48,512)	-
Total assets	4,837,277	71,558	(1,056,021)	3,852,814
Segment liabilities	3,303,349	5,615	(803,481)	2,505,483

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

34.OPERATING SEGMENT INFORMATION (cont'd)

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	339,829	-	-	339,829
Depreciation and amortisation	126,797	4,581	-	131,378
Revenue				
Sales to external customers	5,954,404	84,657		6,039,061
Inter segment sales	356,974	7,489	(364,463)	-
Other income	141,045	3,352	-	144,397
Results				
Operating results	148,250	3,231	-	151,481
Income tax expense	(131,766)	-	-	(131,766)
Profit for the year	16,484	3,231	-	19,715

31 December 2013 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	3,482,061	68,845	(605,472)	2,945,434
Deposit for shares	204,028	-	(204,028)	-
Investment in subsidiary	47,219	-	(47,219)	-
Total assets	3,733,308	68,845	(856,719)	2,945,434
Segment liabilities	1,931,812	6,133	(354,225)	1,583,720

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	209,587	-	-	209,587
Depreciation and amortisation	99,753	4,441	-	104,194
Revenue				
Sales to external customers	5,094,903	64,089		5,158,992
Inter segment sales	209,344	5,375	(214,719)	-
Other income	80,636	3,102	-	83,738
Results				
Operating results	327,890	5,552	-	333,442
Income tax expense	(119,599)	-	-	(119,599)
Profit for the year	208,291	5,552	-	213,843

Notes to the Financial Statements for the year ended 31 December 2014 (cont'd)

34.OPERATING SEGMENT INFORMATION (cont'd)

Revenue from external customers	2014 KShs '000	2013 KShs '000
Kenya	5,357,887	4,753,689
Uganda	397,634	224,265
Tanzania	162,401	70,091
Burundi	9,652	12,792
Mozambique	-	8,952
Rwanda	42,908	23,692
Somali	18,060	15,035
South Sudan	46,157	41,912
DRC	4,362	8,564
Total revenue	6,039,061	5,158,992

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	2014 KShs '000	2013 KShs '000
Kenya	897,835	734,099
Uganda	39,773	28,813
Tanzania	43,515	15,169
Rwanda	5,048	-
	986,171	778,081

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

35. INCORPORATION

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

36. EVENTS AFTER THE REPORTING DATE

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.

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 Fifty Eight (58) Annual General Meeting of the Company to be held on 23 June 2015 and at any adjournment thereof.

Signed/Sealed this ____________ day of ______________ 2015

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.

CROWN PAINTS KENYA LTD

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