Crown

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2017

ANNUAL REPORT & FINANCIAL STATEMENTS


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Content

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 61st Annual General Meeting of the Company will be held at the Sarova Panafric Hotel, Kenyatta Avenue, Nairobi on Thursday, 21 June 2018 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 2017 together with the Directors' and Auditors' Reports thereon.

4 To declare a final dividend of KShs 0.60/= per ordinary share for the financial year ended 31 December 2017, and approve the closure of the Register of Members at 4.30 pm on 21 June 2018 for one day only.

5 To approve the Directors' remuneration paid in respect of the Financial Year ended 31 December 2017.

6 Directors:

a) Mr Stephen Oundo retires by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for re-election.

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

i) Mr Francis Maina

ii) Mr Stephen Oundo

7 To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31 December 2018 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2018.

SPECIAL BUSINESS

8 To consider and, if thought fit, pass the following special resolutions:-

a) That the Company's Memorandum of Association be and is hereby altered by deleting the existing clause 10 and inserting of a new clause 10 as follows :

"10. To lend and advance money or give credit to any person or company with or without security and to guarantee or otherwise support or secure, either with or without the Company receiving any consideration or advantage and whether by personal covenant or by mortgaging or charging all or part of the undertaking, property, assets, rights and revenues present and future and uncalled capital of the Company or by both such methods or by such other means whatsoever, the liabilities and obligations of and the payment of any moneys whatsoever (including but not limited to principal, interest and other liabilities for any borrowings or acceptance credits and capital, premiums, dividends, costs and expenses or any stocks, shares or securities) by any person, firm or company including but not limited to any company which is for the time being a holding company or a subsidiary (both as defined in the Companies Act, 2015) of the Company or of the Company's holding company and that the giving and creation of any such guarantee support or security is hereby constituted one of the main objects of the Company."

Notice of the Annual General Meeting (continued)

b) That the Company's Articles of Association be and is hereby altered by inserting the following new Article 117(A) after the existing Article 117:

"117(A) The Directors may exercise all the powers of the Company to guarantee and become surety for the liabilities, the performance of contracts and the repayment of monies by any person, firm or company and to issue charges, mortgages, debentures or liens to secure performance by the Company of any such guarantee or surety. Clause 79 of Table A shall not apply to the Company."

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 6 May 2018

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

2. A copy of this notice, proxy form and Financial Statements are available on our website www.crownpaints.co.ke or a printed copy may be obtained from the The Registrar, Custody & Registrar Services Limited at the address indicated above.

Chairman's Statement

In the region, Crown Paints remained number one in the decorative sector of the building and construction industry. The brand has remained the most trusted by our consumers because of the tireless efforts to maintain quality of the brand.

Crown Paints had a robust year 2017 despite the political and macroeconomic uncertainties. The year in which the region experienced an electoral process in three of the countries we operate in and a drought which together combined to negatively affect the economic performance of the countries. Our management and staff did put in commendable effort to ensure that the Crown Paints products were available and remained innovative in dealing in a market with a challenging environment. In Kenya, we performed exceptionally well despite the challenges following the electoral process. However, our subsidiaries had a mixed performance with Uganda performing well as our product visibility improved while Tanzania and Rwanda faced another dip in performance because of their economic and political environment.

As you are aware, Crown Paints operations are greatly influenced by the regulatory authorities in the countries in which we operate in as they also impact directly on our customers. As seen during 2017, a negative economic performance would result in an increase in the cost of production and reduce the consumer spending capacity forcing the company to enhance efficiencies within the company.

As your Chairman, I am convinced that the actions taken by the organisation to improve productivity and effectiveness, together with the enhanced collaboration with our esteemed business partners will go a long way to improve performance of our company.

Crown Paints continues to remain committed to ensuring good corporate governance, through the leadership of the Board who have a Board Charter to guide their interaction. For the staff, good governance practices have been inculcated to them at all levels in the organisation and they have each signed the company employee code of conduct. To achieve our strategic Vision "to be the most preferred innovative and colourful brand", and mission "transforming lifestyles by providing world class coating solutions whilst caring for the environment and community", Crown Paints will continue to pursue key drivers that support the achievement of these goal; for its products we will ensure that innovation remains key in their development, for its staff we will ensure that they continuously develop their capabilities as they achieve their ambitions and to our business partners we will ensure that our business processes and capacities meet their demand.

Crown Paints acknowledges the community within which it operates in and therefore puts measures that also benefit them from its existence by engaging in corporate social responsibility, which aims at enhancing people's lives. Crown Paints continues to cater for the environment by ensuring that its products are environmental friendly and it treats its effluent before discharging it into the sewerage system.
As part of our strategy, during the year, Crown Paints signed a toll manufacturing and distribution agreement with

Chairman's Statement (continued)

AkzoNobel South Africa (pty) Ltd (AkzoNobel), for manufacturing, sales and distribution of the Sadolin brand products for the Ugandan market.

Despite the challenging environment in which we operated in during 2017, we note with gratitude that the political scenery has begun to stabilize in the region and we therefore look forward to 2018 to bring many opportunities for Crown Paints we will strive for growth in the business and thus enhance the returns on your investment.

In closing, I would wish to record my sincere appreciation and that of the Board, to our esteemed Loyal Customers for their support, to the staff and management, for their commitment and resilience towards performance and to you my fellow shareholders for your continued loyal support to Crown Paints. Finally, on behalf of all the shareholders, I thank the Board members for their contribution and oversight during the year.

Mhamud Charania
Chairman
30 April 2018

Board of Directors

PATRICK MWATI
Finance Director

FRANCIS MAINA
Non Executive Director

RAKESH RAO
Group Chief Executive Officer

HUSSEIN RAMJI
Vice Chairman

STEPHEN OUNDO
Non Executive Director

Group Chief Executive Officer Statement

Dear Shareholders,

I am pleased to announce the annual results for Crown Paints Kenya PLC (the Group) for the year 2017. You will be gratified to know that in this turbulent year 2017 Crown Paints managed to remain stable in terms of revenue generation and was able to improve the bottom line figures.

2017 was one of the toughest years in the manufacturing industry due to the political environment that led to a slowdown in the economy. This led to a slow growth in the construction sector and a serious cash crunch in the market that slowed the payment cycle from all categories of customers leading to slow uptake of our products. This combined with increased raw material cost of about 30% to 40%, made it a very difficult business year for the Group leading to a reduction in gross margin by almost 5% which has affected the bottom-line.

That said, the Group managed to deliver a growth of 46% in profit before tax by aggressively managing operating costs and increasing productivity across all operations.

On the subsidiaries, the Uganda market showed growth that has helped offset lower sales in Kenya. The operation is now breaking even and is expected to make a very positive contribution from 2018 onwards. The Tanzania operation continues to be a challenge. The changes in the business model and new government policies and directives have continued to restrict business growth. Also, the growth in the construction sector is projected to slow down. In Rwanda, the elections impacted on the construction sector slowing it down thus leading to a decreased demand for paint during the year.

Our strategy for 2017 was to focus on customer solution enhancement, innovation and productivity. We worked on gaining a competitive advantage through automation, research and development and offering value added services to customers. Through innovations in products and services, we provided customers with better propositions that enhanced our brand value in the market. Productivity measures were implemented across all the different functions. For instance, continuous improvement and alignment in the financial model, process reengineering and optimization of resources helped improve profitability. We also established a strong monitoring and evaluation method that focuses on productivity and efficiency through best practices in management. All these measures allowed us to maintain the market leadership position in the region's paint industry.

We also launched a new range of textured finishes, the Italia Series, in line with our commitment to continuously introduce innovative products to the market. Consumers today are far more aware of aesthetics and want their homes and offices to be an extension of their personality and to also reflect the same. They are increasingly looking for interesting fashion finishes, special effects and specific colours, all at an affordable price. Crown Italia Series is easy to apply and tailored to meet this emerging demand. Unlike other textured finishes that are more complex to apply. Crown Italia Series does not require specialised painter skills and can even be applied as a DIY finish by home owners and decorating enthusiasts.

Crown Paints is also the first paint manufacturer to launch a comprehensive loyalty programme for painters. The loyalty programme dubbed Team Kubwa, is administrated via a digital app and the Company's Call Center where painters can register for rewards, special offers and skill development training. The Team Kubwa Painters Loyalty Program creates more opportunities for painters to benefit from their relationship with Crown Paints and assist Crown Paints to create a pool of highly skilled professionals who are in demand not only in Kenya, but also serve the East African region's requirements.

In our market, the issue of counterfeit products remains a great threat to our product, and to address this Crown Paints has introduced a new security system by inserting scratch cards in tins so as to enable customers to certify genuine paint products from Crown Paints especially on fast moving products.

Innovation has always been our greatest strength and during 2017, Crown Paints bagged an award from the

Group Chief Executive Officer Statement (continued)


Crown Paints repainted the Gigiri Police Station's exterior and interior surfaces which was inspired by Crown Paints' desire to transform the lifestyle and environment around the police station.


Crown Paints donated paint for mural art painting done at Wangige Primary school.

Viwandani clean up held along Nanyuki Road in Lunga Lunga by the Crown team.

Crown Paints donated a cheque to Rotary Club of Malindi to raise funds geared towards education fund and polio eradication campaigns put in place by the club.

Group Chief Executive Officer Statement (continued)

Federation of Kenya Employers (FKE) for Innovation. This is the third time Crown Paints has received accolades for Innovation & Productivity having won this category at the Kenya Institute of Management OPI.

CORPORATE SOCIAL RESPONSIBILITY

Since its establishment, Crown Paints has been initiating various CSR projects every year as part of giving back to society and appreciating the support accorded to the company. As a responsible corporate citizen, Crown Paints comprehends the importance of operating in an environment that is ecofriendly and healthy. All the CSR initiatives taken up are aimed at transforming people's lifestyles in a more positive manner; from painting schools to beautification of the city and towns.

PEOPLE DEVELOPMENT

Staff development has been one of our key focus and pillars for the success of Crown Paints. We have invested continuously in training in a bid to develop and retain our talent. We expose our employees to opportunities that will develop their skills. Some of the training include but not limited to: Formal induction of all new employees, Credit and Debt management training, Up your service skills training, Occupational health and safety and product knowledge training.

To meet our targets and align our individual efforts to the overall company objective we introduced a new performance management system in the year (HK-Hoshin Kanri) which is a Kaizen tool where all employees were trained and sensitised.

In 2017, we accomplished 18,202 total training hours and an average of 3 training days per employee.

DIVERSITY AND INCLUSION

We have adopted best practices to create a friendly yet challenging work environment, support and encourage work-life balance to help manage the young and dynamic staff. Our workforce is multi-generational with well spread skills.

FUTURE OUTLOOK

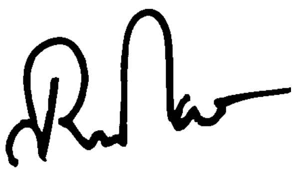
We expect that the political stability in the region will attract investors to grow the construction and infrastructure projects that will boost demand for our products. The Kenyan government has indicated interest in providing one (1) million low cost houses and we expect that this will create a significant demand for paint. We already have a range of economy paints and other products to meet this demand. We will also continue to expand our market share by introducing new and innovative product solutions, better customer experience and outreach into new market segments.

To grow our regional markets, we are looking to invest USD 3 million in Uganda and USD 1.5 million in Tanzania to improve the supply chain to meet the growing demand of our product in the market.

NEW ENTRANT

Overall, despite the capacity enhancement by our competitors and new entrants thus leading to greater pressure on price and product quality in the sector, we have an optimistic outlook for 2018 and expect to continue with healthy growth and profitability to maximize our shareholder's return.

Finally, but most importantly, I extend my heartfelt thanks to my fellow Directors, you the shareholders, our employees and business partners for their continued and inspiring support towards creating more value for all.



Rakesh K. Rao
Group Chief Executive Officer
30 April 2018

Corporate Governance Report

Introduction

In Crown Paints Kenya PLC (Crown Paints), we remain committed to the highest standards of Corporate Governance and business ethics. Towards these we have established and maintained systems to ensure the high standards are at all levels. Crown Paints does not only comply with the standards of the Capital Market Authority on Corporate Governance practices by public listed companies in Kenya, but is committed to embed internal rules of engagement that support Corporate Governance. These internal rules are constituted in the employee code of business conduct to which each employee is committed to. The Board of Directors governs Crown Paints in a way that maximizes shareholder value and is in the best interest of the society.

Governing Body of Crown Paints Kenya PLC

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

The Board of Directors

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

The operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board. The Board Charter is published on the Company's website.

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 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. The current composition of the Board is given on page 15.

Corporate Governance Report (continued)

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 and Risk Committee

The audit committee chaired by a Non-Executive Director and with attendance by invitation, the Chief Executive Officer and other key personnel. It reports to the Board. Among its functions include:

1. Review of risk management and internal controls
2. Review of financial reporting and disclosure
3. Oversight of external auditor and internal Audit.

b) Nomination and Remuneration Committee

This committee chaired by a Non-Executive Director. It is responsible for:

1. Reviewing the balance and effectiveness of the board.
2. The remuneration of the directors and senior management
3. Succession planning at the board level and proposing new nominees for appointment to the Board

c) Special committees

The Board is mandated by the company's Articles of Association to form an ad hoc committee to deal with specific matters that may occur.

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 can 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.

Directors' Emoluments and Loans

The details of emoluments paid to Directors for services is disclosed in the Directors remuneration report, page 17 to 19 of the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Corporate Information

REGISTERED OFFICE

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

BANKERS

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

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

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

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

SOLICITORS

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

SECRETARY

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

REGISTRARS

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

AUDITORS

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

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, which show the state of the affairs of Crown Paints Kenya PLC ("the company") and Subsidiaries (together, "the group").

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public limited company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 13.

2. CHANGE OF NAME

In compliance with the Kenyan Companies Act 2015, Crown Paints Kenya Limited changed its name to Crown Paints Kenya PLC on 20 June 2017.

3. PRINCIPAL ACTIVITIES

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

4. GROUP RESULTS

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

5. COMPANY RESULTS

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

6. DIVIDENDS

Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 0.60 (2016: KShs 0.60) per share amounting to KShs 42,708,600 (2016: KShs 42,708,600).

7. FINANCIAL STATEMENTS

Except as indicated in Note 33 to the financial statements, the directors are not aware of any circumstances, which would render the values attributed to assets and liabilities in the financial statements of the Group and the Company not as stated in the financial statements.

8. RESERVES

The reserves of the Group and the Company are set out in Note 12.

Report of the Directors (continued)

9. DIRECTORS

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

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

10. BUSINESS REVIEW

During the year ended 31 December 2017, the Group faced a challenging environment because of the economic and political situation. As a result, the Group's revenue remained steady with a growth of 0.05% (KShs 3.8 million) compared to a growth of 9% (KShs 610 million) during the year ended 31 December 2016.

In Kenya, the election environment and severe drought experienced in some parts of the country had some serious business impact on the Kenyan economy leading to it recording of a modest economic growth estimated at around 4.7% as compared to 5.8% in 2016. These political and macroeconomic uncertainties during the year affected the performance of the construction industry leading to its decline in 2017 to around 6.5% of GDP, as compared to 9.27% in 2016. Because of this, the paint sector experienced low growth, which led to stiff competition as players sought to grow or retain their market share.

In the regional market, the same mixed fortunes were experienced. Rwanda held general elections in 2017, leading to decline in market activity in the construction sector. In Tanzania, the change in government policies continues to be witnessed, which has affected foreign investment as well as the domestic market sentiments that are quite negative to business. The Tanzanian market being largely an economy market, profitability remains under pressure due to cut throat competition. The Ugandan market has recovered slightly from 2016 performance. However, its GDP growth rate is less compared to year 2016.

Despite all the above, the Group's 2017 performance improved as the directors continued to manage the cost of doing business in line with the revenues generated. The profit before tax for 2017 rose to KShs 398 million, which represents a 46% growth of KShs 126 million compared to year ended 31 December 2016 which had a growth of 26% (KShs 55 million).

The Board remains committed to risk management practices that identifies and ensures that management pro-actively deals with risks. The Board has the overall responsibility for the Group's risk management and for designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error. In the Board, the Audit Committee is tasked with reviewing the Group's risk management programmes. On the day to day operations of the Group, the Chief Executive Officer together with other top management officials ensure implementation and compliance to the risk management procedures and policies. The Group's operations in the various countries face various risks both strategic and operational.

Report of the Directors (Continued)

10. BUSINESS REVIEW (continued)

Risk Strategic		Mitigation
	Regulatory Environment The Group is expected to comply with all regulatory bodies and governments' requirements.	• The Group ensures that its products meet the regulatory requirements. • The Group engages regulatory authorities to ensure compliance. • The Group actively participates with other stakeholders in building relationships with the regulatory authorities.
	Competition The paint industry has become ever more competitive both in terms of the products and players.	• The Group through its research and development team is continuously developing its products to meet the market demands. • The Group continuously monitors the market for the entry of new players and the threat that they offer.
Strategic	**Economic/Political** The political environment in the countries we operate in greatly influences the economic performance	**Mitigation** • The Group monitors the environment and takes measures to mitigate the risks identified.
Operational	**Technological** Changes in technology is a continuous threat to the operations.	• The Group ensures that its operating systems are updated and protected from external threats.

The Board of Directors remains optimistic on the performance for 2018 and will undertake the necessary initiatives to ensure that the company remains profitable whilst caring for the environment and the community. The Group, through its corporate social responsibility initiatives, has continued to offer assistance to needy cases in the society through sponsorship.

Toll Manufacturing, Distribution and Trademark License Agreement

Regal Paints Uganda Limited has entered into a toll agreement with AkzoNobel South Africa (pty) Limited, 56 Emerald Park Boulevard, Greenstone Hill, Gauteng, Johannesburg, South Africa, for manufacturing, sales and distribution of the Sadolin brand products.

The Agreement will enable Regal Paints Uganda Limited to enjoy economies of scale in its operations.

11. STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Report of the Directors (continued)

12. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 723 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 10,953,000 has been charged to profit or loss in the year.

13. GOING CONCERN

The directors have made an assessment of the company's and subsidiaries' ability to continue as a going concern and are satisfied that they have the resources to continue in business for the foreseeable future.

Having made an assessment of the company's and its subsidiaries' ability to continue as a going concern as disclosed in note 33, the financial statements of the subsidiaries have been prepared on going concern basis on the assumption that the parent company will continue providing financial support necessary to meet their financial obligations. The subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries and meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements of the subsidiaries which have been consolidated in these financial statements.

By Order of the Board

Conrad Nyukuri
Secretary
30 April 2018

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company and its subsidiaries as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

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

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

Having made an assessment of the company's and its subsidiaries' ability to continue as a going concern as disclosed in note 33, the financial statements of the subsidiaries have been prepared on going concern basis on the assumption that the parent company will continue providing financial support necessary to meet their financial obligations. The subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements of the subsidiaries which have been consolidated in these financial statements.

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

Approved by the board of directors on 30 April 2018 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Directors’ Remuneration Report on The Financial Statements

The Directors’ Remuneration Report sets out the policy that the Company has applied to remunerate executive and non-executive directors. The report has been prepared in accordance with the relevant provisions of the CMA code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015 and the Companies (General) (Amendments) (No.2) Regulations, 2017.

Executive Directors

Executive directors are remunerated in accordance with the company’s staff remuneration policy. The determination of the pay is based on the established salary scale. Annual objectives are set at the beginning of the year and a performance assessment carried out to determine the annual bonus and annual increment. The remuneration package comprises of basic salary, pension and other benefits. There has been no major change relating to directors’ remuneration during the year under review.

Non-Executive Directors

Non-executive directors are paid a sitting allowance for attending board meetings.

The fees are approved by shareholders at Annual General Meetings.

Contract of Service

In accordance with the Capital Market Authority regulations on non-executive directors, a third of the Board is elected at every Annual General Meeting by the shareholders for a term of three (3) years on rotation basis.

The executive directors have employment contracts with the Company.

The table shows the executive and the non-executive directors emoluments in respect of qualifying services for the year ended 31 December 2017. The aggregate directors’ emoluments are shown in note 9 and 22.

Directors' Remuneration Report on The Financial Statements (continued)

31 December 2017

Director	Role	Category	Gross earnings including pension contribution KShs	Annual bonus KShs	Sitting allowances KShs	Other benefits* KShs	Totals KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	123,468	6,232,860
Hussein H.R.J Charania	Vice- chairman	Executive	40,082,400	1,670,000	-	2,456,219	44,208,619
Rakesh K. Rao	Chief Executive Officer	Executive	38,261,618	1,405,000	-	6,787,587	46,454,205
Patrick M. Mwati	Finance Director	Executive	32,295,998	1,160,000	-	5,576,540	39,032,538
Francis G.K. Maina	Director	Non- executive	-	-	810,000	-	810,000
Stephen B. Oundo	Director	Non- executive	-	-	1,080,000	-	1,080,000
Grace J. Kemei	Resigned 31 January 2017	Non- executive	-	-	90,000	-	90,000
Totals			**116,749,408**	**4,235,000**	**1,980,000**	**14,943,814**	**137,908,222**

*Benefits include housing, motor-vehicle allowances, gift vouchers, utilities, school fees and cash allowances.

Directors' Remuneration Report on The Financial Statements (continued)

31 December 2016

Director	Role	Category	Gross earnings including pension contribution	Annual bonus	Sitting allowances	Other benefits*	Totals
			KShs	KShs	KShs	KShs	KShs
Mhamud Charania	Chairman	Non- executive	6,114,392	-	-	1,469,468	7,583,860
Hussein H.R.J Charania	Vice- chairman	Executive	33,502,400	2,790,000	-	1,738,032	38,030,432
Rakesh K. Rao	Chief Executive Officer	Executive	28,829,200	2,340,000	-	7,346,148	38,515,348
Patrick M. Mwati	Finance Director	Executive	25,342,200	1,930,000	-	5,107,020	32,379,220
Francis G.K. Maina	Director	Non- executive	-	-	720,000	-	720,000
Stephen B. Oundo	Director	Non- executive	-	-	1,000,000	-	1,000,000
Grace J. Kemei	Resigned 31 January 2017	Non- executive	-	-	600,000	-	600,000
Totals			**93,788,192**	**7,060,000**	**2,320,000**	**15,660,668**	**118,828,860**

*Benefits include housing, motor-vehicle allowances, gift vouchers, utilities, school fees and cash allowances.

Report of the Independent Auditors to the Shareholders of Crown Paints Kenya PLC and Subsidiaries

Building a better working world

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Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated and separate financial statements of Crown Paints Kenya PLC (the ''company'') and its subsidiaries (together, the ''group'') set out on pages 27 to 91, which comprise the consolidated and separate statements of financial position as at 31 December 2017, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Crown Paints Kenya PLC as at 31 December 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 33 to the financial statements, which explains the status of the company's subsidiaries. As indicated in the note, the subsidiaries, which contribute significantly to the performance of the group, incurred losses during the year ended 31 December 2017. These conditions, along with other matters as set forth in note 33, indicate the existence of a material uncertainty that may cast significant doubt on the company's and the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Report of the Independent Auditors to the Shareholders of Crown Paints Kenya PLC and Subsidiaries (continued)

Key Audit Matters

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

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

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

Key audit matter	How our audit addressed the key matter
Impairment consideration of amounts owing from and investment in the subsidiaries	
As disclosed in Note 9 to the financial statements, the company has amounts due from its subsidiaries totaling KShs 909.2 million. We focused on these amounts due from subsidiaries due to their significance as discussed below: • The outstanding amounts are material to the financial statements of the company. • The subsidiaries are loss making and rely on the parent company for provision of working capital. We also focused on the adequacy of the disclosures of related party balances in Note 9 to the financial statements, which are significant to the understanding of the amounts due from subsidiaries.	We made enquiries of the related party relationships including changes from the prior period and obtained a schedule of the relevant transactions and balances. We reviewed the accounting records for any unusual transactions with related parties, checked that the transactions were supported by appropriate documentation and that the agreements in place are up to date. We assessed the recoverability of the amounts due from the subsidiaries by checking the subsequent receipts and also reviewed the repayments projections by management. We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances. We obtained confirmations on the outstanding balances from subsidiaries. We reviewed the adequacy of the company's disclosures in Note 9 in relation to related party transactions and balances.

Report of the Independent Auditors to the Shareholders of Crown Paints Kenya PLC and Subsidiaries (continued)

Status of the Subsidiaries	
The company's subsidiaries have been making losses in the past and the summary of financial performance and financial position of the subsidiaries is further disclosed in Note 33 to the financial statements. Given that significant judgement has been made by management in assessing the going concern of the subsidiaries and the effect on the group and the fact that the disclosures are important to the users' understanding of the financial statements we have considered this as a key audit matter. In addition, the results of the subsidiaries are material to the Group's financial position and performance.	We reviewed management's assessment of the subsidiaries' ability to continue as going concerns, including the process management followed to make its assessment, the assumptions on which the assessment is based and management's plan for future actions. We reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due. We assessed whether the disclosures in the financial statements on going concern are complete and adequate.

Other Information

The directors are responsible for the other information. The other information comprises corporate information, the Directors' Report, as required by the Kenyan Companies Act, 2015, the Directors' Remuneration Report, which we obtained prior to the date of this report, Chairman's Statement, Group Chief Executive Officer's Statement and Corporate Governance Report, which are expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

Report of the Independent Auditors to the Shareholders of Crown Paints Kenya PLC and Subsidiaries (continued)

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

Report of the Independent Auditors to the Shareholders of Crown Paints Kenya PLC and Subsidiaries (continued)

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

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

i) in our opinion, the information given in the report of the directors on page 14 to 17 is consistent with the financial statements.

ii) in our opinion, the auditable part of directors' remuneration report on page 19 to 21 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

Nairobi, Kenya
30 April 2018

Consolidated statement of financial position as at 31 December 2017

	Note	2017 KShs'000	2016 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,281,117	1,214,145
Intangible assets	4	35,923	36,635
Prepaid leases on land	5	7,699	7,964
Deferred tax	14	1,501	18,540
		1,326,240	1,277,284
CURRENT ASSETS			
Inventories	7	1,884,274	1,503,554
Trade and other receivables	8	1,764,680	1,468,849
Amounts due from related companies	9(i)	559,607	475,673
Cash and cash equivalents	28	214,222	205,632
Current tax recoverable	10	122,584	128,037
		4,545,367	3,781,745
TOTAL ASSETS		5,871,607	5,059,029
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	1,401,711	1,206,211
		1,757,616	1,562,116
NON-CURRENT LIABILITIES			
Bank loans	16	296,107	246,703
		296,107	246,703
CURRENT LIABILITIES			
Bank overdraft	15	328,898	134,374
Bank loans	16	435,168	467,889
Short term notes	17	757,379	507,403
Amounts due to related companies	9(ii)	147,787	299,095
Trade and other payables	18	2,148,356	1,840,289
Current tax payable	10	296	1,160
		3,817,884	3,250,210
TOTAL EQUITY AND LIABILITIES		5,871,607	5,059,029

The financial statements were approved by the Board of Directors on 30 April 2018 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Consolidated Statement of Profit or Loss and other comprehensive income for the year ended 31 December 2017

	Note	2017 KShs'000	2016 KShs'000
REVENUE	19	7,351,326	7,347,557
COST OF SALES	20	(4,552,750)	(4,401,444)
GROSS PROFIT		2,798,576	2,946,113
OTHER INCOME	21	386,808	260,293
		3,185,384	3,206,406
EXPENSES:-			
Administration and establishment	22	(1,606,545)	(1,695,616)
Selling and distribution	23	(971,508)	(906,472)
Finance costs	24	(209,202)	(209,726)
Revaluation loss on property, plant & equipment	3(b)	-	(122,549)
		(2,787,255)	(2,934,363)
PROFIT BEFORE TAX	26	398,129	272,043
TAX EXPENSE	10	(174,835)	(140,247)
PROFIT FOR THE YEAR		223,294	131,796
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		6,371	50,810
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		6,371	50,810
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain on property, plant & equipment	3(b)	-	72,600
Deferred income tax on revaluation	14	-	(21,780)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	50,820
TOTAL OTHER COMPREHENSIVE INCOME		6,371	101,630
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		229,665	233,426
ATTRIBUTABLE TO:			
Owners of the parent		229,665	233,426
Non- controlling interest		-	-
		229,665	233,426
Basic and diluted earnings per share (KShs)	27	3.14	1.85

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2016		355,905	80,174	87,803	38,787	790,113	1,352,782
Profit for the year		-	-	-	-	131,796	131,796
Other comprehensive income		-	-	50,820	50,810	-	101,630
Total comprehensive income		-	-	50,820	50,810	131,796	233,426
Transfer of excess depreciation-2016		-	-	(9,053)	-	9,053	-
Deferred tax on excess depreciation		-	-	-	-	18,617	18,617
2015 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
At 31 December 2016		355,905	80,174	129,570	89,597	906,870	1,562,116
At 1 January 2017		355,905	80,174	129,570	89,597	906,870	1,562,116
Profit for the year		-	-	-	-	223,294	223,294
Other comprehensive income		-	-	-	6,371	-	6,371
Total comprehensive Income		-	-	-	6,371	223,294	229,665
Transfer of revaluation reserve on disposal		-	-	(3,749)	-	3,749	-
Deferred tax on revaluation reserve on disposal						1,125	1,125
Transfer of excess depreciation- 2017		-	-	(24,730)	-	24,730	-
2016 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
Deferred tax on excess depreciation		-	-	-	-	7,419	7,419
At 31 December 2017		355,905	80,174	101,091	95,968	1,124,478	1,757,616

Consolidated Statement of Cash Flows
For the year ended 31 December 2017

OPERATING ACTIVITIES	Note	2017 KShs'000	2016 KShs'000
Profit before tax		398,129	272,043
Adjustments for:-			
Depreciation on property, plant and equipment	3	118,956	157,020
Revaluation loss on property, plant and equipment	3(b)	-	122,549
Amortisation of intangible assets	4	14,830	15,144
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		8,776	109,063
Unrealised foreign exchange gain		(15,829)	(78,629)
Interest expense	24	209,202	209,726
Interest income	21	(1,103)	(1,728)
Allowance for bad debts	23	114,856	111,404
Bad debts written off	23	17,733	191
Leave accrual write back	21	(2,629)	(10,920)
Inventory write-down	7	38,938	34,533
Reversals of inventory write down	7	(39,821)	(29,633)
Loss/(gain) on disposal of property, plant and equipment	21& 22	2,533	(1,190)
Operating profit before working capital changes		864,836	909,838
Increase in trade and other receivables		(428,421)	(320,179)
(Increase)/decrease in inventories		(379,838)	106,807
Increase in trade and other payables		310,697	262,002
Increase in amounts due from related parties		(83,934)	(166,158)
(Decrease)/increase in amounts due to related parties		(151,308)	82,185
Cash generated from operations		132,032	874,495
Income tax paid	10	(144,663)	(327,658)
Interest received	21	1,103	1,728
Interest paid		(185,789)	(218,253)
Net cash (used in)/ generated from operating activities		(197,317)	330,312
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(190,927)	(246,084)
Purchase of intangible assets	4	(14,096)	(6,685)
Proceeds on sale of property, plant and equipment		1,363	5,977
Net cash used in investing activities		(203,660)	(246,792)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,512,169	1,501,265
Repayment of bank loans	16	(1,498,078)	(1,302,331)
Proceeds from short term notes	17	2,856,916	2,089,591
Repayment of short term notes	17	(2,625,554)	(2,233,177)
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash flows from financing activities		202,744	12,639
Net (decrease)/ increase in cash and cash equivalents		(198,233)	96,159
Cash and cash equivalents at the beginning of the year		71,258	(52,372)
Effect of exchange rate changes on cash & cash equivalents		12,299	27,471
Cash and cash equivalents at the end of the year	28	(114,676)	71,258

Company Statement of Financial Position
As at 31 December 2017

ASSETS	Note	2017 KShs'000	2016 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,117,808	1,117,386
Intangible assets	4	28,214	29,758
Prepaid leases on land	5	7,699	7,964
Investments in subsidiary companies	6	881,095	881,095
Deferred tax	14	1,501	18,540
		2,036,317	2,054,743
CURRENT ASSETS			
Inventories	7	1,492,184	1,271,827
Trade and other receivables	8	1,221,640	1,034,067
Amounts due from related parties	9(i)	1,468,757	1,084,373
Current tax recoverable	10	104,978	112,868
Cash and cash equivalents	28	127,346	157,642
		4,414,905	3,660,777
TOTAL ASSETS		6,451,222	5,715,520
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	2,318,396	2,019,528
		2,674,301	2,375,433
NON CURRENT LIABILITIES			
Bank loans	16	278,968	246,703
		278,968	246,703
CURRENT LIABILITIES			
Bank overdraft	15	328,759	134,374
Bank loans	16	428,457	467,889
Short term notes	17	757,379	507,403
Trade and other payables	18	1,826,336	1,679,407
Amounts due to related parties	9(ii)	157,022	304,311
		3,497,953	3,093,384
TOTAL EQUITY AND LIABILITIES		6,451,222	5,715,520

The financial statements were approved by the Board of Directors on 30 April 2018 and signed on its behalf by: -

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Company Statement of Profit and Loss and other Comprehensive Income
For the year ended 31 December 2017

	Note	2017 KShs'000	2016 KShs'000
REVENUE	19	6,790,999	6,726,368
COST OF SALES	20	(4,284,608)	(4,092,158)
GROSS PROFIT		2,506,391	2,634,210
OTHER INCOME	21	294,510	173,463
		2,800,901	2,807,673
EXPENSES: -			
Administration and establishment	22	(1,306,691)	(1,348,045)
Selling and distribution	23	(779,221)	(720,093)
Finance costs	24	(208,774)	(209,726)
Revaluation loss on property, plant and equipment	3(b)	-	(122,549)
		(2,294,686)	(2,400,413)
PROFIT BEFORE TAX	26	506,215	407,260
TAX EXPENSE	10	(173,182)	(138,772)
PROFIT FOR THE YEAR		333,033	268,488
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Revaluation gain on property, plant & equipment	3(b)	-	72,600
Deferred income tax on revaluation	14	-	(21,780)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	50,820
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		333,033	319,308
Basic and diluted earnings per share (KShs)	27	4.68	3.77

Company Statement of Changes in Equity
For the year ended 31 December 2017

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2016		355,905	80,174	128,179	1,515,959	2,080,217
Profit for the year		-	-	-	268,488	268,488
Other comprehensive income		-	-	50,820	-	50,820
Total comprehensive income		-	-	50,820	268,488	319,308
Transfer of excess depreciation- 2016		-	-	(9,053)	9,053	-
Deferred tax on excess depreciation		-	-	-	18,617	18,617
2015 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2016		355,905	80,174	169,946	1,769,408	2,375,433
At 1 January 2017		355,905	80,174	169,946	1,769,408	2,375,433
Profit for the year		-	-	-	333,033	333,033
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	333,033	333,033
Transfer of revaluation reserve on disposal		-	-	(3,749)	3,749	-
Deferred tax on revaluation reserve on disposal		-	-	-	1,125	1,125
Transfer of excess depreciation- 2017		-	-	(24,730)	24,730	-
Deferred tax on excess depreciation		-	-	-	7,419	7,419
2016 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2017		355,905	80,174	141,467	2,096,755	2,674,301

Company Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 KShs'000	2016 KShs'000
OPERATING ACTIVITIES			
Profit before tax		506,215	407,260
Adjustments for:-			
Depreciation on property, plant and equipment	3	88,709	131,923
Revaluation loss on property, plant and equipment	3(b)	-	122,549
Amortisation of intangible assets	4	12,790	13,067
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange loss		3,415	2,746
Unrealised exchange gain		(1,742)	(14,388)
Interest expense	24	208,774	209,726
Interest income	21	(1,103)	(1,716)
Allowance for bad debts-trade receivables	23	86,388	74,653
Bad debts written off	23	8,678	191
Leave accrual write-back	21	(2,629)	(10,920)
Inventory write-downs	7	37,065	32,751
Reversals of inventory write down	7	(39,821)	(29,374)
Loss/(gain) on disposal of property, plant and equipment	21 & 22	2,573	(1,142)
Operating profit before working capital changes		909,577	937,591
Increase in trade and other receivables		(282,639)	(225,619)
(Increase)/decrease in inventories		(217,602)	83,844
Increase in trade and other payables		149,559	274,701
Increase in amounts due from related parties		(384,384)	(321,544)
(Decrease)/increase in amounts due to related parties		(147,289)	79,979
Cash generated from operations		27,222	828,952
Income tax paid	10	(139,709)	(319,161)
Interest received	21	1,103	1,716
Interest paid		(186,673)	(218,253)
Net cash (used in)/generated from operating activities		(298,057)	293,254
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(92,988)	(212,123)
Purchase of intangible assets	4	(11,246)	(5,979)
Proceeds from sale of property, plant and equipment		1,285	5,696
Net cash used in investing activities		(102,949)	(212,406)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,487,107	1,501,265
Repayments of bank loans	16	(1,495,554)	(1,302,331)
Proceeds from short term notes	17	2,856,916	2,089,591
Repayments of short term notes	17	(2,625,554)	(2,233,177)
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash flows from financing activities		180,206	12,639
Net (decrease)/increase in cash and cash equivalents		(220,800)	93,487
Cash and cash equivalents at the beginning of the year		23,268	(81,891)
Effect of exchange rate changes on cash and cash equivalents		(3,881)	11,672
Cash and cash equivalents at the end of the year	28	(201,413)	23,268

Notes to the financial statements for the year ended 31 December 2017

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.
The nature and the impact of the relevant amendments are described below. Although the Group applied the amendments for the first time in 2017, they did not have a material impact on the annual financial statements of the Group.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

The amendments are intended to provide information to help investors better understand changes in an entity's debt. The Group has disclosed the changes arising from cash flows and non-cash changes in Notes 16 and 17.

Relevant new standards issued but not yet effective

The standards and interpretations applicable to Group that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

IFRS 9 Financial Instruments

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

The Group plans to adopt the new standard on the required effective date. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

The new classification and measurement and impairment requirements will be applied by adjusting the statement of financial position on 01 January 2018, the date of initial application, with no restatement of comparative period financial information. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings as at 01 January 2018 of 65% to 70%. We will continue to monitor and refine certain elements of our impairment process in advance of Q1 2018 reporting.

Notes to the financial statements for the year ended 31 December 2017 (continued)

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

Relevant new standards issued but not yet effective (continued)

Impairment

The Group intends to apply the simplified approach and record lifetime expected losses for trade receivables or contract assets that result from transactions within the scope of IFRS 15 and that do not contain a significant financing component. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. For trade receivables or contract assets that do not contain a significant financing component, entities are required to apply the simplified approach.

Hedge accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have any significant impact on the Group as the Group does not apply hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective on 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.
In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning or after 1 January 2018. Early adoption is permitted.

Notes to the financial statements for the year ended 31 December 2017 (continued)

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

Relevant new standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The Group does not anticipate early adopting IFRS 15 and the standard is not expected to have significant impact on the Group. The Group is in the business of manufacture and sale of paints and adhesives.

(a) Sale of goods

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

In applying IFRS 15, the Group is considering the following:

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

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

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

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

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

The Company has performed an analysis in order to evaluate the impact of IFRS 15. The main issues analysed are related to supply and apply and variable price adjustment clauses. From this analysis, the Company has no significant variable consideration in its pricing hence the impact on the Company's financial statements is not expected to be significant. The Company will apply the modified retrospective method: comparative information will not be restated and the cumulative impact of the first application will be presented as an adjustment to opening equity at January 1, 2018.

Notes to the financial statements for the year ended 31 December 2017 (continued)

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

Relevant new standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Effective for annual periods beginning on or after 1 January 2019.

Notes to the financial statements for the year ended 31 December 2017 (continued)

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

Relevant new standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Key requirements

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

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

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

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

c) Foreign currency transactions

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

(i) Transactions and balances

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

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

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

(ii) Group companies

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes, discounts, rebates or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for the Akzonobel South Africa (pty) Limited contract where it is acting as an agent. 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.

Sale of services
Revenue from apply and supply services is recognised when all the contractual obligations have been met usually upon completion of the paint job. The revenue is included in other income in profit or loss.

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

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

Tolling fees
During the year AkzoNobel appointed Regal Paints Uganda Limited as a non-exclusive distributor, toll manufacturer and licensee to use the trademarks to manufacture, distribute, sell or supply the products in the Republic of Uganda on the terms of the signed Agreement. The tolling fee charged on manufacture of the Sadolin paint is recognised as other income in the statement profit or loss.

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 recognised outside profit or loss.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

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 utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

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.

f) Property, plant and equipment

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

Subsequently, all property and equipment except land, are measured at fair value less accumulated depreciation and impairment losses recognised 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 credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off carrying amounts 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%
Fixtures and fittings	12½%
Motor vehicles	20%
Computers and equipment	20%

An item of property, plant and equipment and any significant part initially recognised 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.

g) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. No borrowing costs were capitalised during the year ended 31 December 2017 (2016: KShs 8.5 million). The borrowing costs capitalised in 2016 related to a specific loan acquired for the construction of the Kisumu factory.

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

i) Intangible assets

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

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

Intangible assets with finite lives are amortised on a straight line basis over their useful economic lives from the date they are 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 are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in an expense category consistent with the function of the intangible asset.

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

Derecognition of intangible assets

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

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

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

j) Financial instruments – initial recognition and subsequent measurement

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, trade and other receivables, and amounts due from related parties.

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

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

Loans and receivables

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (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 recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises 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 a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not 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 and payables, net of directly attributable transaction costs.

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

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables and amounts due to related parties
Trade payables and amounts due to related parties are stated at amortised cost using the effective interest method.

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii) Financial liabilities (continued)

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, and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

k) Fair value of assets and liabilities

The Group measures certain property, plant and equipment at fair value at each reporting date. The Group has no financial instruments that are 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 by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Fair value of assets and liabilities (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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 cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

m) Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market conditions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of non-financial assets (continued)

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, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

n) Cash and cash equivalents

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

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, 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 contribution provident fund
The Group operates a defined contribution 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.

Statutory pension scheme
The Group also makes contributions to the statutory defined contribution schemes in the four countries where operations are based.

The group's contributions to the defined contribution plans are recognised as an expense in profit or loss as they fall due.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Employee benefits (continued)

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 or 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 IFRSs 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 7 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 recoverable. Refer to Note 8 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 29 for disclosure on the lease commitments.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Judgements (continued)

Deferred tax assets
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. Refer to Note 14 for the disclosure on deferred tax.

Going concern
The management makes significant judgement in assessing the subsidiaries' ability to continue as a going concern and the effect on the Group. Refer to Note 33 for the disclosure on going concern.

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

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

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

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

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

Useful lives of 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 differing from initial estimates. Further details on intangible assets are given in Note 4.

Notes to the financial statements for the year ended 31 December 2017 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of non-financial assets

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

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

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

Contingent liabilities

As disclosed in Note 29 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

s) Investments in subsidiaries

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 DECEMBER 2017

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2017	32,152	610,001	263,086	170,232	243,254	23,700	1,342,425
Additions	-	41,891	79,049	23,069	45,149	2,589	191,747
Transfer from WIP	-	21,422	1,749	-	-	(23,171)	-
Disposals	-	-	-	(5,682)	-	-	(5,682)
Exchange differences	-	-	(183)	(332)	(1,072)	(30)	(1,617)
At 31 December 2017	32,152	673,314	343,701	187,287	287,331	3,088	1,526,873
Accumulated depreciation							
At 1 January 2017	-	-	65,380	26,793	36,108	-	128,281
Charge for the year	-	13,010	20,419	42,603	42,924	-	118,956
Eliminated on disposals	-	-	-	(969)	-	-	(969)
Exchange differences	-	-	(9)	(160)	(343)	-	(512)
At 31 December 2017	-	13,010	85,790	68,267	78,689	-	245,756
Net carrying amount	32,152	660,304	257,911	119,020	208,641	3,088	1,281,117

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

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles equipment KShs'000	Furniture, fittings and KShs'000	Total KShs'000
Net carrying amount	502,034	249,008	61,293	275,409	1,087,744

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

SIXTY YEARS

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2016

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

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

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

*Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Kisumu and Kampala. 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 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 DECEMBER 2017

	Freehold land	Buildings	Plant and machinery	Motor vehicles	Furniture, fittings and equipment	Work in progress*	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation							
At 1 January 2017	32,152	610,001	175,353	126,380	152,078	21,422	1,117,386
Additions	-	41,892	15,131	14,077	22,708	-	93,808
Disposals	-	-	-	(5,625)	-	-	(5,625)
Transfer from WIP	-	21,422	-	-	-	(21,422)	-
At 31 December 2017	32,152	673,315	190,484	134,832	174,786	-	1,205,569
Accumulated depreciation							
At 1 January 2017	-	-	-	-	-	-	-
Charge for the year	-	13,010	14,431	33,130	28,138	-	88,709
Eliminated on disposals	-	-	-	(948)	-	-	(948)
At 31 December 2017	-	13,010	14,431	32,182	28,138	-	87,761
Carrying Amount							
At 31 December 2017	32,152	660,305	176,053	102,650	146,648	-	1,117,808

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

	Freehold land	Buildings	Plant and machinery	Motor vehicles	Furniture, fittings and equipment	Work in progress*	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Carrying amount	-	502,034	167,150	44,925	213,415	-	927,524

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2016

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

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

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Carrying amount	-	449,832	171,769	58,127	263,844	-	943,572

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2017 (continued)

No borrowing costs were capitalised during the year ended 31 December 2017 (2016: KShs 8.5 million)

The Kenya Commercial Bank Limited and Commercial Bank of Africa Limited facilities (Refer to Note 15 & 16) are secured by debentures of KShs 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479.

All the company's assets, except for freehold land and work in progress, were revalued on 31 December 2016. The revaluation amounts have been incorporated in the financial statements for the year then ended. The subsidiaries` assets are carried in the financial statements at cost.

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 were;

a) the comparable approach, which compares the sales of similar items in the market and depreciated replacement cost, which takes into account the current cost of replacement or reproduction of an asset. The approach was used in the valuation of unspecialised equipment

b) The depreciated replacement cost, which derives the value of an asset from the current cost of reproduction/ replacement less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The approach was used in the valuation of specialized machinery, buildings and structures.

The valuation was undertaken by an independent professional valuer, Lead Realtors Limited. The revaluation surplus was credited to revaluation reserve while the revaluation deficit was charged to profit or loss.

The table below shows the valuation of the company's assets except land and work in progress, which are carried at cost, and the determination of the revaluation surplus/(deficit).

Notes to the financial statements for the year ended 31 December 2017 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2017 (continued)

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

(c) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 ON THE COMPANY'S LAND HOLDING STATUS

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

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

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

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 2017 (continued)

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cost				
At 1 January	137,521	131,620	126,503	120,524
Additions	14,096	6,685	11,246	5,979
Exchange difference	(18)	(784)	-	-
At 31 December	151,599	137,521	137,749	126,503
Amortisation				
At 1 January	100,885	85,918	96,745	83,678
Charge for the year	14,830	15,144	12,790	13,067
Exchange difference	(39)	(176)	-	-
At 31 December	115,676	100,886	109,535	96,745
Carrying Amount	35,923	36,635	28,214	29,758

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

There were no borrowing costs capitalized during the year ended 31 December 2017 (2016: Nil)
No intangible assets have been pledged as security (2016:Nil)

5. PREPAID LEASES

	GROUP & COMPANY	
	2017	2016
	KShs'000	KShs'000
Cost		
At 1 January and December	13,000	13,000
Accumulated amortisation		
At 1 January	5,036	4,771
Charge for the year	265	265
At 31 December	5,301	5,036
Carrying Amount	7,699	7,964

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 2017 was 29 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2017 was 29 years.

Notes to the financial statements for the year ended 31 December 2017 (continued)

6. INVESTMENT IN SUBSIDIARIES

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

Details of investment	Country of incorporation	Activity	Holdings %	2017 KShs'000	2016 KShs'000
Crown Paints Allied Industries Limited (44,800 ordinary shares of KShs 1,000 each, share premium – 34,800 shares of KShs 1,500 each.)	Kenya	Manufacture of adhesives	100	97,000	97,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) (505,000 ordinary shares of KShs 292 each, Share premium- 500,000 shares of KShs 436.)	Uganda	Selling of auto paints and decorative products	100	365,372	365,372
Crown Paints Tanzania Limited (42,800 ordinary shares of KShs 4,649 each, share premium 32,800 shares @ KShs 6,660)	Tanzania	Selling of auto paints and decorative products	100	417,430	417,430
Crown Paints Rwanda Limited (1,000 ordinary shares of KShs 1,293 each)	Rwanda	Selling of auto paints and decorative products	100	1,293	1,293
				881,095	881,095

7. INVENTORIES

	GROUP 2017 KShs'000	GROUP 2016 KShs'000	COMPANY 2017 KShs'000	COMPANY 2016 KShs'000
Finished goods and packaging materials	809,299	767,084	604,485	590,949
Raw materials	681,380	584,596	500,828	524,097
Goods in transit	423,414	203,055	420,968	203,055
Work-in-progress	35,693	16,549	23,718	14,297
	1,949,786	1,571,284	1,549,999	1,332,398
Inventories write-down to NRV	(65,512)	(67,730)	(57,815)	(60,571)
	1,884,274	1,503,554	1,492,184	1,271,827

The amount of inventories write-down reversed during the year was KShs. 39,821,000 (2016: KShs 29,633,000) for the Group and KShs. 39,821,000 (2016: KShs 29,374,000) for the Company, for inventories carried at net realisable value. This is recognised in other income, Note 21.

Notes to the financial statements for the year ended 31 December 2017 (continued)

7. INVENTORIES (continued)

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

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
At the beginning of the year	67,730	62,830	60,571	57,194
Provision for the year	38,938	34,533	37,065	32,751
Write off for the year	(1,335)	-	-	-
Reversals for write down	(39,821)	(29,633)	(39,821)	(29,374)
	65,512	67,730	57,815	60,571

8. TRADE AND OTHER RECEIVABLES

Trade receivables	1,465,699	1,334,039	995,110	945,518
Other receivables	128,511	60,521	64,194	24,380
Prepayments	170,470	74,289	162,336	64,169
	1,764,680	1,468,849	1,221,640	1,034,067

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%, 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 2017, the Group's trade receivables with initial value of KShs 346,502,000 (2016: KShs 327,196,000) were fully provided for. The Company's trade receivables with initial value of KShs 264,345,000 (2016: KShs 246,694,000) were fully provided for.

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

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
At beginning	327,196	266,395	246,694	215,743
Charge for the year (Note 23)	114,856	111,404	86,388	74,653
Used during the year (write-off)	(26,813)	(4,602)	-	-
Recoveries in the year (Note 21)	(68,737)	(46,001)	(68,737)	(43,702)
	346,502	327,196	264,345	246,694
Ageing analysis of trade receivables:				
Less than 60 days (neither past due nor impaired)	1,089,359	832,595	758,998	671,713
61 days to 90 days	114,824	112,599	50,273	54,398
Over 90 days	608,018	716,041	450,184	466,101
	1,812,201	1,661,235	1,259,455	1,192,212
Impaired	(346,502)	(327,196)	(264,345)	(246,694)
Total	1,465,699	1,334,039	995,110	945,518

Notes to the financial statements for the year ended 31 December 2017 (continued)

8. TRADE AND OTHER RECEIVABLES (continued)

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

Ageing analysis for other receivables:

	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Less than 60 days (neither past due nor impaired)	38,489	23,947	16,049	2,200
61 days to 90 days	1,526	2,699	1,028	915
Over 90 days	88,496	33,875	47,117	21,265
	128,511	60,521	64,194	24,380
Impaired	-	-	-	-
Total	128,511	60,521	64,194	24,380

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48% of the Company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 13.63% of the Company's shares. Crown Paints and Building Products Limited is a wholly owned subsidiary of Barclay Holdings Limited. Thus, the ultimate parent Company for Crown Paints Kenya Plc is Barclay Holdings Limited. The remaining 38.37% of the shares are widely held through the Nairobi Securities Exchange. Crown Paints Allied Industries Limited, Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited – Uganda), Crown Paints Rwanda Limited and Crown Paints Tanzania Limited are wholly owned subsidiaries of the Company.

The following transactions were carried out with related parties:

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

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Receivables from related companies:				
Crown Paints and Building Products Limited	559,607	475,673	559,607	475,673
Regal Paints Uganda Limited	-	-	379,837	208,360
Crown Paints Allied Industries Limited	-	-	960	466
Crown Paints Rwanda Limited	-	-	172,620	196,775
Crown Paints Tanzania Limited	-	-	355,733	203,099
	559,607	475,673	1,468,757	1,084,373
Ageing analysis				
Less than 60 days (neither past due nor impaired)	71,372	58,050	175,671	52,885
61 days to 90 days	5,108	12,121	65,796	15,312
Over 90 days	483,127	405,502	1,227,290	1,016,176
	559,607	475,673	1,468,757	1,084,373
Impaired	-	-	-	-
Neither past due nor impaired	559,607	475,673	1,468,757	1,084,373

Notes to the financial statements for the year ended 31 December 2017 (continued)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
(ii) Payables to related companies:				
Crown Paints Allied Industries Limited	-	-	9,361	9,330
Crown Paints and Building Products Limited	6,448	13,922	4,313	9,808
Daxian Limited	141,339	285,173	141,339	285,173
Regal Paints Uganda	-	-	2,009	-
	147,787	299,095	157,022	304,311
(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	997	1,022
Crown Paints Rwanda Limited	-	-	38,270	138,573
Regal Paints Uganda Limited	-	-	250,762	181,255
Crown Paints Tanzania Limited	-	-	235,723	182,666
Crown Paints and Building Products Limited	80	706	80	706
Purchase of goods				
Crown Paints Allied Industries Limited	-	-	37,031	39,998
Crown Paints Tanzania Limited	1,021	3,161	1,639	11,259
Crown Paints Rwanda Limited	755	1,232	9,419	-
Services rendered				
Daxian Limited	86,857	86,363	86,857	86,363
Crown Paints and Building Products Limited	32,198	28,945	32,198	28,945

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

	GROUP 2017 KShs'000	GROUP 2016 KShs'000	COMPANY 2017 KShs'000	COMPANY 2016 KShs'000
(iv) Key management personnel compensation				
Short term employee benefits	166,616	152,318	166,616	152,318
Defined contribution plan	8,677	3,559	8,677	3,559
	175,293	155,877	175,293	155,877
(v) Directors' remuneration				
Fees for services as directors	8,213	9,904	8,213	9,904
Other emoluments (included in key management compensation above)	129,695	108,925	129,695	108,925
	137,908	118,829	137,908	118,829

Notes to the financial statements for the year ended 31 December 2017 (continued)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(v) Directors' remuneration (continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Loans to related parties				
Key management	625	828	625	828
Crown Paints and Building Products Limited	53,418	40,540	53,418	40,540
Movement in loans to Crown Paints and Building Products Limited:				
At beginning of the year	40,540	22,860	40,540	22,860
Loans issued during the year	628,145	719,958	628,145	719,958
Repayments made during the year	(615,267)	(702,278)	(615,267)	(702,278)
As at 31 December	53,418	40,540	53,418	40,540
(vi) Short term note due to related parties				
Crown Paints & Building Products Limited	293	79,602	293	79,602
Directors	157,828	130,527	157,828	130,527
	158,121	210,129	158,121	210,129

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

Terms and conditions of transactions with related parties

Amounts due from and due to related parties are non-interest bearing and current. The loans to key management and directors are issued to purchase motor vehicles at an interest rate of 10% for a period not exceeding 36 months. The loans are secured against the log books. The other amounts due to or from related parties are not secured.

During the year ended 31 December 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2016: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes to the financial statements for the year ended 31 December 2017 (continued)

10. TAXATION

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(126,877)	52,764	(112,868)	59,751
Charge for the year	149,252	148,017	147,599	146,542
Paid during the year	(144,663)	(327,658)	(139,709)	(319,161)
Current tax recoverable	(122,288)	(126,877)	(104,978)	(112,868)
The amount has been presented in the statement of financial position as follows;				
Current tax payable	296	1,160	-	-
Current tax recoverable	(122,584)	(128,037)	(104,978)	(112,868)
Net amount	(122,288)	(126,877)	(104,978)	(112,868)
STATEMENT OF COMPREHENSIVE INCOME				
Current tax at 30 % on the taxable profit for the year	149,252	148,017	147,599	146,542
Deferred tax expense/(credit) (note 14)	25,583	(7,770)	25,583	(7,770)
	174,835	140,247	173,182	138,772
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	398,129	272,043	506,215	407,260
Tax at applicable rate of 30%	119,439	81,613	151,865	122,178
Tax effect on items not eligible for tax purposes	18,821	14,380	18,821	14,380
Minimum tax liability-Tanzania	1,653	1,475	-	-
Unrecognised deferred tax assets on tax losses in subsidiaries	32,426	40,565	-	-
Over provision in previous year	2,496	2,214	2,496	2,214
	174,835	140,247	173,182	138,772
Tax effect on items not eligible for tax purposes can be summarised as follows;				
Depreciation	7,486	6,105	7,486	6,105
Amortization on leasehold land	80	80	80	80
Legal fees	-	104	-	104
Staff benevolent costs	308	-	308	-
Directors expenses	1,277	1,767	1,277	1,767
Bad debts written off	2,582	57	2,582	57
Donations	106	235	106	235
Sponsorship	135	165	135	165
Fines & penalties	215	5	215	5
School fees	2,420	2,057	2,420	2,057
Corporate social responsibility	496	575	496	575
Pension scheme administration costs	845	696	845	696
Excess pension contribution	2,871	2,534	2,871	2,534
	18,821	14,380	18,821	14,380

Notes to the financial statements for the year ended 31 December 2017 (continued)

11. SHARE CAPITAL

	GROUP & COMPANY	
	2017	2016
	KShs'000	KShs'000
Authorised:		
71,181,000 (2016: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905
Issued and fully paid:		
71,181,000 (2016: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905

12. RESERVES

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	101,091	129,570	141,467	169,946
Foreign currency translation reserve	95,968	89,597	-	-
Retained earnings	1,124,478	906,870	2,096,755	1,769,408
	1,401,711	1,206,211	2,318,396	2,019,528

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

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

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

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

13. DIVIDENDS

	2017	2016
	KShs'000	KShs'000
Dividend paid		
Final dividend for 2016 KShs 0.60 per share (2015: KShs. 0.60 per share)	42,709	42,709
Proposed for approval at the annual general meeting		
(not recognised as a liability as at 31 December)		
Dividend on ordinary shares KShs 0.60 (2016: KShs 0.60) per share	42,709	42,709

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.
(ii) Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.

Notes to the financial statements for the year ended 31 December 2017 (continued)

14. DEFERRED TAX ASSET

Movements in deferred tax during the year were as follows:

	Balance at 1 January KShs'000	Profit or loss KShs'000	Equity KShs'000	Other comprehensive income KShs'000	Balance at 31 December KShs'000
Year ended 31 December 2017					
Accelerated capital allowances	57,553	18,613	-	-	76,166
Unrealised exchange loss	(824)	(201)	-	-	(1,025)
Unrealised exchange gain	4,316	(3,794)	-	-	522
Revaluation reserve	57,518	-	(8,544)	-	48,974
Allowance for doubtful debts	(74,007)	(5,295)	-	-	(79,302)
Provisions for staff leave	(12,494)	789	-	-	(11,705)
Provision for bonus accrual	(18,000)	6,429	-	-	(11,571)
Provision for obsolete inventories	(18,171)	827	-	-	(17,344)
Provision for rebates	(14,431)	8,215	-	-	(6,216)
	(18,540)	25,583	(8,544)	-	(1,501)
Year ended 31 December 2016					
Accelerated capital allowances	46,933	10,620	-	-	57,553
Unrealised exchange loss	(6,980)	6,156	-	-	(824)
Unrealised exchange gain	6,532	(2,216)	-	-	4,316
Revaluation reserve	-	-	-	21,780	21,780
Deferred tax on excess depreciation	54,355	-	(18,617)	-	35,738
Allowance for doubtful debts	(64,722)	(9,285)	-	-	(74,007)
Provisions for staff leave	(14,015)	1,521	-	-	(12,494)
Provision for bonus accrual	(11,400)	(6,600)	-	-	(18,000)
Provision for obsolete inventories	(17,158)	(1,013)	-	-	(18,171)
Provision for rebates	(7,478)	(6,953)	-	-	(14,431)
	(13,933)	(7,770)	(18,617)	21,780	(18,540)

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting KShs 200,342,000 (2016: KShs 167,916,000) because it is not expected that the companies will have taxable profits in the near future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to Kshs 667,805,000 (2016: KShs 556,514,000) and can be carried forward for a maximum period of 10 years and 5 years in accordance with Kenyan and Rwandan tax laws, respectively, and indefinitely for Tanzania and Uganda. The other temporary differences relating to the subsidiaries for which no deferred tax has been recognised amount to KShs 56,680,636 (2016: KShs 101,898,506).

In accordance with the Kenyan Income Tax Act, Crown Paints Allied Industries Limited 2010 tax loss of KShs 20,525,372 are available for utilisation until 31 December 2019.

Notes to the financial statements for the year ended 31 December 2017 (continued)

14. DEFERRED TAX ASSET (continued)

In accordance with the Rwandan Income Tax Act, the tax losses for Crown Paints Rwanda Limited are available for utilization subject to their respective expiry dates as follows:

a) 2014 tax loss amounting to KShs 9,865,593 expires on 31 December 2019

b) 2017 tax loss amounting to KShs 24,066,028 expires on 31 December 2022

15. BANK OVERDRAFT

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Bank overdraft	328,898	134,374	328,759	134,374

The bank overdraft facility is to the extent of: Kenya Commercial Bank Limited (KCB) - KShs 350 million and USD 200,000 and Commercial Bank of Africa (CBA) - KShs 110 million and USD 1,000,000 letters of guarantee/ letters of credit/ import bill financing and Barclays Bank of Kenya Kshs. 35,000,000 overdraft /Invoice Financing Facility. The KCB, CBA and Barclays facilities are secured by debenture of KShs 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479 along Dar es Salam road.

The weighted average interest rate on the overdraft at year-end was 14% (2016: 14.41%), letters of guarantee- 9.25%. The bank overdrafts are reviewed annually and are payable on demand

16. BANK LOAN

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Long term loans:				
KCB Loan-Kenya	302,439	258,700	302,439	258,700
KCB Loan-Uganda	23,850	-	-	-
	326,289	258,700	302,439	258,700
Short term borrowings:				
CBA IPF facility	136,051	115,581	136,051	115,581
KCB IPF facility	268,935	340,311	268,935	340,311
	404,986	455,892	404,986	455,892
Total bank loans	731,275	714,592	707,425	714,592
Due within 1 year	435,168	467,889	428,457	467,889
Due after 1 year	296,107	246,703	278,968	246,703

SIXTY YEARS

Notes to the financial statements for the year ended 31 December 2017 (continued)

16. BANK LOAN (continued)

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Movements during the year:				
At 1 January	714,592	515,658	714,592	515,658
Additional loan received	1,512,169	1,501,265	1,487,107	1,501,265
Accrued interest	4,799	-	3,487	-
Loan repayments	(1,498,078)	(1,302,331)	(1,495,554)	(1,302,331)
Foreign exchange difference	(2,207)	-	(2,207)	-
At 31 December	731,275	714,592	707,425	714,592

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

The weighted average interest rate on the loans at year-end was 14% (2016: 14%). The amount due in 1 year also includes the current portion of the long term loans due within 12 months amounting KShs 30 million. The long term loans relate to financing from Kenya Commercial Bank Limited for the construction of warehouses and offices, landed costs of vehicles, equipment, fixtures and fittings for a new factory erected on property L.R. No. Kisumu/Ojola/4790 and asset based finance loan for the purchase of new machinery and motor vehicles. The facilities shall be repaid in 114 months and 60 months consecutive monthly instalments inclusive of interest and other charges.

The long term loan from Kenya Commercial Bank Limited Uganda is an asset based financing for the purchase of machinery. The interest on the term loan is 20% and the facility shall be repaid in 36 months consecutive monthly instalments inclusive of interest and other charges.

17. SHORT TERM NOTES

	GROUP & COMPANY	
	2017 KShs'000	2016 KShs'000
Amounts falling due within one year	757,379	507,403
Movement in the year:		
At 1 January	507,403	650,989
Additional loan received	2,856,916	2,089,591
Accrued interest	18,614	-
Loan repayments	(2,625,554)	(2,233,177)
At 31 December	757,379	507,403

The short-term notes are non-secured facilities from private lenders and are repayable on maturity of the facilities. The interest rate on the short-term note is at 91 day treasury bills interest rate plus 1.5% and the short-term notes are for 365 days period.

Notes to the financial statements for the year ended 31 December 2017 (continued)

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Amounts falling due within one year				
Trade payables	1,858,139	1,445,564	1,581,355	1,320,022
Other payables	126,716	134,560	107,629	118,897
Accruals	163,501	260,165	137,352	240,488
	2,148,356	1,840,289	1,826,336	1,679,407

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.

19. REVENUE

The following revenue arose from sale of goods:

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Decorative paints	5,918,699	5,774,519	5,605,117	5,475,674
Industrial paints	898,510	1,043,566	794,817	830,215
Automotive paints	374,022	385,711	247,860	287,196
Adhesives	160,095	143,761	143,205	133,283
	7,351,326	7,347,557	6,790,999	6,726,368

20. COST OF SALES

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Raw materials	4,188,022	4,070,332	3,949,490	3,788,425
Salaries and wages	172,188	126,528	160,843	118,717
Depreciation on plant and machinery	32,468	40,186	27,441	35,011
Machinery repairs and maintenance	72,449	81,647	70,127	77,860
Fuel, water and electricity	21,233	29,598	16,143	22,782
Safety & environmental costs	31,547	33,570	31,459	33,445
Consultancy technical	17,548	8,443	17,548	8,443
Transport costs	7,654	4,604	7,635	4,481
Factory rent	3,286	2,181	-	-
Others	6,355	4,355	3,922	2,994
	4,552,750	4,401,444	4,284,608	4,092,158

Notes to the financial statements for the year ended 31 December 2017 (continued)

21. OTHER INCOME

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Gain on disposal of property and equipment	40	1,190	-	1,142
Interest income	1,103	1,728	1,103	1,716
Miscellaneous income	162,822	39,861	146,211	33,254
Operating lease revenue	17,063	16,163	13,344	12,511
Doubtful debts written back	68,737	46,001	68,737	43,702
Decrease in provision for leave	2,629	10,920	2,629	10,920
Reversal of inventory write down	39,821	29,633	39,821	29,374
Forex exchange gain	35,097	106,224	9,588	32,272
Surcharge sales	13,077	8,573	13,077	8,572
Tolling Fees	46,419	-	-	-
	386,808	260,293	294,510	173,463

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP 2017 KShs'000	GROUP 2016 KShs'000	COMPANY 2017 KShs'000	COMPANY 2016 KShs'000
Staff costs (Note 25)	987,085	976,423	812,866	834,424
Depreciation of property and equipment	86,488	116,834	61,266	96,912
Auditors' remuneration	10,953	10,638	6,200	5,900
Directors' emoluments:				
As directors	8,213	9,904	8,213	9,904
As executives	129,695	108,925	129,695	108,925
Legal and professional fees	42,631	26,331	27,499	21,734
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	14,830	15,144	12,790	13,067
Insurance	45,910	46,493	40,077	39,063
Loss on disposal of property and equipment	2,573	-	2,573	-
Foreign exchange loss	60,282	141,139	37,900	15,982
Office expenses	77,319	75,181	51,221	55,519
Consultancy fees	26,117	7,847	26,004	6,147
Computer costs	45,877	83,850	43,316	79,890
Travel	12,599	28,603	2,546	19,366
Maintenance, subscriptions and donations	23,026	20,612	16,332	18,146
Bank charges	25,503	14,464	22,109	12,533
Others	7,179	12,963	5,819	10,268
	1,606,545	1,695,616	1,306,691	1,348,045

Notes to the financial statements for the year ended 31 December 2017 (continued)

23. SELLING AND DISTRIBUTION

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Transport	223,586	212,947	170,466	164,542
Advertising and promotion	349,706	351,526	299,109	298,727
Inventory write-downs	38,938	34,533	37,065	32,751
Allowance for bad debts-trade receivables	114,856	111,404	86,388	74,653
Bad debts written off during the year	17,733	191	8,678	191
Depot expenses	217,208	188,261	168,147	142,658
Others	9,481	7,610	9,368	6,571
	971,508	906,472	779,221	720,093

24. FINANCE COSTS

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Interest on loan and overdraft	124,256	115,412	123,828	115,412
Interest on short term notes	84,946	94,314	84,946	94,314
	209,202	209,726	208,774	209,726

25. STAFF COSTS

Salaries and wages	797,827	795,267	655,174	684,384
Defined contribution plan	10,775	10,205	2,815	2,327
Medical benefits	10,901	12,669	4,405	5,919
Insurance	72,567	78,121	69,740	75,609
Staff general costs	73,166	56,341	64,045	48,326
Training and development	21,849	23,820	16,687	17,859
Staff costs (Note 22)	987,085	976,423	812,866	834,424
Salaries and wages (Note 20)	172,188	126,528	160,843	118,717
Total staff costs	1,159,273	1,102,951	973,709	953,141

Notes to the financial statements for the year ended 31 December 2017 (continued)

26. PROFIT BEFORE TAX

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
The profit before tax is stated after charging: -				
Depreciation of property, plant & equipment	118,956	157,020	88,709	131,923
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	14,830	15,144	12,790	13,067
Directors emoluments:				
As directors	8,213	9,904	8,213	9,904
As executives	129,695	108,925	129,695	108,925
Auditors' remuneration	10,953	10,638	6,200	5,900
Loss on disposal of property, plant and equipment	2,573	-	2,573	-
Finance costs	209,202	209,726	208,774	209,726
Foreign exchange loss	60,282	141,139	37,900	15,982
And after crediting: -				
Interest income	1,103	1,728	1,103	1,716
Operating lease income	17,063	16,163	13,344	12,511
Gain on disposal of property, plant and equipment	40	1,190	-	1,142
Forex exchange gain	35,098	106,224	9,588	32,272

27. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Net profit attributable to ordinary shareholders	223,294	131,796	333,033	268,488
Weighted average number of ordinary shares in '000'	71,181	71,181	71,181	71,181

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the year.
There were no potentially dilutive shares as at 31 December 2017 and as at 31 December 2016.

28. 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	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and cash equivalents	214,222	205,632	127,346	157,642
Bank overdraft (Note 15)	(328,898)	(134,374)	(328,759)	(134,374)
	(114,676)	71,258	(201,413)	23,268

Notes to the financial statements for the year ended 31 December 2017 (continued)

29. COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

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

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

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Within 1 year	6,745	10,457	6,745	10,457
Within 5 years	-	-	-	-
	6,745	10,457	6,745	10,457

b) Contingent liabilities

No provision has been made in relation to pending legal cases (2016: 1.8 million).
The Group is involved in a number of legal proceedings which are yet to be concluded upon. The Directors evaluate the status of these exposures on a regular basis to assess the probability of incurring related liabilities. The estimated liability of pending legal cases is KShs 19 million.

c) The Group's capital commitments as at year end were nil (2016: KShs 21 million) for the construction of a factory in Kisumu.

d) Bank facilities

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Letters of credit	9,422	204,600	9,422	204,600
Guarantees given by bankers	3,618	20,000	3,618	20,000
	13,040	224,600	13,040	224,600

The guarantees are issued by the Group's bankers in favour of third parties and the Group has entered into counter-indemnities with the same banks. These guarantees are part of the borrowing facilities disclosed in Notes 15 and 16 above and are issued in the normal course of business.

Notes to the financial statements for the year ended 31 December 2017 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Cash and cash equivalents	214,222	205,632	127,346	157,642
Trade and other receivables	1,536,670	1,394,560	1,038,608	969,898
Amounts due from related companies	559,607	475,672	1,468,757	1,084,373
	2,310,499	2,075,864	2,634,711	2,211,913
Financial liabilities at amortised cost				
Bank overdraft	328,898	134,374	328,759	134,374
Bank loans	731,275	714,592	707,425	714,592
Short term notes	757,379	507,403	757,379	507,403
Amounts due to related companies	147,787	299,095	157,022	304,311
Trade and other payables	2,025,385	1,692,331	1,720,889	1,544,931
	3,990,724	3,347,795	3,671,474	3,205,611

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

Interest rate risk

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 KShs'000	Effect on equity KShs'000
2017	Increase by 2%	23,851	16,696	23,717	16,602
	Decrease by 2%	(23,851)	(16,696)	(23,717)	(16,602)
2016	Increase by 2%	19,266	13,486	19,266	13,486
	Decrease by 2%	(19,266)	(13,486)	(19,266)	(13,486)

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. It is the Group's policy that all customers who wish to trade on credit terms are subjected to credit verification procedures. The credit controller assesses the credit quality of each customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. Utilisation of credit limits is regularly monitored. The Group has no collateral holdings as there is no significant concentration of credit risk.

The amounts that best represent the Group's and company's maximum exposure to the credit risk as at 31 December 2017 were as follows:

GROUP

As at 31 December 2017	Neither due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,089,358	114,824	608,019	(346,502)	1,465,699
Other receivables	38,489	1,526	88,496	-	128,511
Amount due from related companies	71,372	5,108	483,127	-	559,607
Bank balances and cash	210,975	-	-	-	210,975
	1,410,194	121,458	1,179,642	(346,502)	2,364,792

Notes to the financial statements for the year ended 31 December 2017 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

COMPANY

As at 31 December 2017	Neither past nor impaired Less than 60 days	Past due but not impaired 61-90 days	Over 90 days	Impaired	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	758,998	50,273	450,184	(264,345)	995,110
Other receivables	16,049	1,028	47,117	-	64,194
Amount due from related companies	175,671	65,796	1,227,290	-	1,468,757
Bank balances and cash	126,786	-	-	-	126,786
	1,077,504	117,097	1,724,591	(246,345)	2,654,847

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

GROUP:

As at 31 December 2016	Neither past due nor impaired Less than 60 days	Past due but not impaired 61-90 days	Over 90 days	Impaired	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	832,595	112,599	716,041	(327,196)	1,334,039
Other receivables	23,947	2,699	33,875	-	60,521
Amount due from related parties	58,050	12,122	405,501	-	475,673
Bank balances and cash	203,077	-	-	-	203,077
	1,117,669	127,420	1,155,417	(327,196)	2,073,310

COMPANY:

As at 31 December 2016	Neither past due nor impaired Less than 60 days	Past due but not impaired 61-90 days	Over 90 days	Impaired	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	671,713	54,398	466,101	(246,694)	945,518
Other receivables	2,200	915	21,265	-	24,380
Amount due from related parties	52,885	15,312	1,016,176	-	1,084,373
Bank balances and cash	157,094	-	-	-	157,094
	883,892	70,625	1,503,542	(246,694)	2,211,365

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

The balances in foreign currencies were as follows:

	GROUP		COMPANY	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Assets in foreign currencies				
Cash and bank	44,194	8,907	-	6,195
Trade and other receivables	22,297	13,311	2,239	450
Foreign currency assets	66,491	22,218	2,239	6,645
Liabilities in foreign currencies				
Bank overdraft	(17,799)	(18,048)	(17,799)	(18,048)
Payables	(959,339)	(683,369)	(817,021)	(656,738)
Bank loan	(136,051)	(115,581)	(136,051)	(115,581)
Foreign currency liabilities	(1,113,189)	(816,998)	(970,871)	(790,367)
Net foreign currency liability position	(1,046,698)	(794,780)	(968,632)	(783,722)

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

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

		GROUP		COMPANY	
USD		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
2017	Increase in US$ by 4%	(41,868)	(29,308)	(38,745)	(27,122)
	Decrease in US$ by 4%	41,868	(29,308)	38,745	27,122
2016	Increase in US$ by 4%	(31,791)	(22,254)	(31,349)	(21,944)
	Decrease in US$ by 4%	31,791	22,254	31,349	21,944

Liquidity risk

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

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

GROUP

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2017							
Financial Liabilities							
Bank overdraft	(328,898)	-	-	-	-		(328,898)
Bank loans	(41,357)	(181,167)	(128,147)	(16,183)	(116,097)	(252,065)	(735,016)
Short term notes	(178,046)	(247,235)	(223,419)	(25,778)	(82,901)	-	(757,379)
Trade payables	(674,752)	(163,132)	(49,218)	(133,723)	(837,314)	-	(1,858,139)
Other payables	(42,315)	-	-	-	-	-	(42,315)
Accruals	(124,928)	-	-	-	-	-	(124,928)
Amounts due to related companies	(7,121)	(11,443)	(5,424)	(5,148)	(118,651)	-	(147,787)
Total financial liabilities	(1,397,417)	(602,977)	(406,208)	(180,832)	(1,154,963)	(252,065)	(3,994,462)

GROUP

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2016							
Financial Liabilities							
Bank overdraft	(134,374)	-	-	-	-	-	(134,374)
Bank loan	(99,864)	(133,098)	(155,549)	(40,839)	(38,538)	(257,693)	(725,581)
Short term notes	(75,137)	(181,418)	(134,274)	(51,359)	(65,215)	-	(507,403)
Trade payables	(613,415)	(160,566)	(78,090)	(61,321)	(532,172)	-	(1,445,564)
Other payables	(2,054)	(44,421)	-	-	(127)	-	(46,602)
Accruals	(200,162)	-	-	-	-	-	(200,162)
Amounts due to related companies	(12,494)	(6,617)	(3,858)	(9,560)	(266,566)	-	(299,095)
Total financial liabilities	(1,137,500)	(526,120)	(371,771)	(163,079)	(902,618)	(257,693)	(3,358,781)

Notes to the financial statements for the year ended 31 December 2017 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company	<30 days	31-60 days	61-90 days	91-120 days	>120 days	>365 days	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 31 December 2017							
Financial Liabilities							
Bank overdraft	(328,759)	-	-	-	-	-	(328,759)
Bank loans	(41,357)	(179,963)	(121,684)	-	(116,097)	(228,949)	(688,050)
Short term notes	(178,046)	(247,235)	(223,419)	(25,778)	(82,901)	-	(757,379)
Trade payables	(566,461)	(119,484)	(3,774)	(113,445)	(778,192)	-	(1,581,356)
Other payables	(40,717)	-	-	-	-	-	(40,717)
Accruals	(98,778)	-	-	-	-	-	(98,778)
Amounts due to related companies	(11,923)	(15,812)	(8,898)	(11,804)	(108,585)	-	(157,022)
Total financial liabilities	(1,266,041)	(562,494)	(357,775)	(151,027)	(1,085,775)	(228,949)	(3,652,061)

Company	<30 days	31-60 days	61-90 days	91-120 days	>120 days	>365 days	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 31 December 2016							
Financial Liabilities							
Bank overdraft	(134,374)	-	-	-	-	-	(134,374)
Bank loan	(99,864)	(133,098)	(155,549)	(40,839)	(38,538)	(257,693)	(725,581)
Short term notes	(75,137)	(181,418)	(134,274)	(51,359)	(65,215)	-	(507,403)
Trade payables	(580,441)	(148,501)	(60,845)	(55,398)	(474,837)	-	(1,320,022)
Other payables	-	(44,421)	-	-	-	-	(44,421)
Accruals	(180,487)						(180,487)
Amounts due to related companies	(12,133)	(11,493)	(1,067)	(11,923)	(267,695)	-	(304,311)
Total financial liabilities	(1,082,436)	(518,931)	(351,735)	(159,519)	(846,285)	(257,693)	(3,216,599)

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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

31. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

b) Fair value hierarchy

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

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

GROUP	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2017				
Property, plant and equipment	-	-	1,085,656	1,085,656
LIABILITY				
Bank loan	-	(252,065)	-	(252,065)
31 December 2016				
Property, plant and equipment	-	-	1,063,812	1,063,812
LIABILITY				
Bank loan	-	(257,693)	-	(257,693)

COMPANY	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2017				
COMPANY				
Assets				
Property, plant and equipment	-	-	1,085,656	1,085,656
LIABILITY				
Bank loan	-	(228,949)	-	(228,949)
31 December 2016				
Assets				
Property, plant and equipment	-	-	1,063,812	1,063,812
LIABILITY				
Bank loan	-	(257,693)	-	(257,693)

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Reconciliation of level 3 assets

	KShs 000
At 1 January	1,063,812
Additions	93,808
Transfer from WIP	21,422
Disposals	(4,677)
Depreciation charge	(88,709)
At 31 December	1,085,656

The fair values of property, plant and equipment presented in the table above are based on valuations performed by Lead Realtors Limited, accredited independent valuers, on 31 December 2016 plus purchases during the year, net of 2017 depreciation charge and assets disposed.

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

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

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

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

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

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

32. OPERATING SEGMENT INFORMATION

The Group's risks and rate of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.
The paints segment manufactures and sells paints, decorating sundries, PVA emulsion and alkyd resins producer.
The adhesives segment manufactures and sells adhesives.
Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Notes to the financial statements for the year ended 31 December 2017 (continued)

32. OPERATING SEGMENT INFORMATION (continued)

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

31 December 2017 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	6,777,582	32,437	(938,412)	5,871,607
Investment in subsidiary	881,095	-	(881,095)	-
Total assets	7,658,677	32,537	(1,819,507)	5,871,607
Segment liabilities	5,045,158	7,245	(938,412)	4,113,991
Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	205,449	394	-	205,843
Depreciation and amortisation	133,864	181	-	134,045
Revenue				
Sales to external customers	7,191,231	160,095	-	7,351,326
Inter segment sales	536,809	38,807	(575,616)	-
Interest income	1,103	-	-	1,103
Other income	381,913	3,792	-	385,705
Interest expense	209,202	-	-	209,202
Results				
Operating results	397,306	823	-	398,129
Income tax expense	(174,835)	-	-	(174,835)
Profit for the year	222,471	823	-	223,294

Notes to the financial statements for the year ended 31 December 2017 (continued)

32. OPERATING SEGMENT INFORMATION (continued)

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

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	260,264	1,032	-	261,296
Depreciation and amortisation	170,748	1,681	-	172,429
Revenue				
Sales to external customers	7,203,797	143,760	-	7,347,557
Inter segment sales	514,775	44,390	(559,165)	-
Interest income	1,687	41	-	1728
Other income	254,220	4,345	-	258,565
Interest expense	204,750	4,976	-	209,726
Results				
Operating results	274,773	(2,730)	-	272,043
Income tax expense	(140,247)	-	-	(140,247)
Profit for the year	134,526	(2,730)	-	131,796

Revenue from external customers	2017 KShs '000	2016 KShs '000
Kenya	6,030,392	6,210,151
Uganda	669,273	440,000
Tanzania	521,550	424,053
Burundi	5,493	5,167
Mozambique	4,702	-
Rwanda	107,188	256,882
Somali	12,130	4,473
South Sudan	109	6,321
DRC	489	510
Total revenue	7,351,326	7,347,557

Notes to the financial statements for the year ended 31 December 2017 (continued)

32. OPERATING SEGMENT INFORMATION (continued)

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	2017 KShs '000	2016 KShs '000
Kenya	1,154,968	1,156,141
Uganda	91,322	36,505
Tanzania	62,744	54,977
Rwanda	15,702	11,119
	1,324,737	1,258,742

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

33. STATUS OF THE SUBSIDIARY COMPANIES

Regal Paints Uganda Limited
The company incurred a loss of KShs 1.8 million during the year ended 31 December 2017 (2016 - KShs 81 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs 78 million (2016 - KShs 39 million). In addition, the company's accumulated losses stood at KShs 361 million as at 31 December 2017 (2016- KShs 359 million) while its total liabilities exceeded total assets by KShs 4 million (2016 - KShs 2.2 million).

Crown Paints Tanzania Limited
The company incurred a loss of KShs 77 million during the year ended 31 December 2017 (2016 - KShs 44 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs 72 million (2016- assets exceeded liabilities by KShs 9 million). In addition, the company's accumulated losses stood at KShs 411 million as at 31 December 2017 (2016 - KShs 345 million) while its total liabilities exceeded total assets by KShs 9.7 million (2016: assets exceeded liabilities by KShs 64 million).

Crown Paints Rwanda Limited
The company incurred a loss of KShs 32 million during the year ended 31 December 2017 (2016- KShs 9.4 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs 62.6 million (2016-KShs. 29.4 million). In addition, the company's accumulated losses stood at KShs 53.9 million as at 31 December 2017 (2016 - KShs 22.2 million) while its total liabilities exceeded total assets by KShs 46.9 million (2016- KShs 18.3 million).

Crown Paints Allied Industries Limited
The company incurred a profit of KShs 0.8 million (2016- loss of KShs 2.7 million) during the year ended 31 December 2017 and, as of that date, the company's current assets exceeded its current liabilities by KShs 24 million (2016-KShs 23 million). However, the company's accumulated losses stood at KShs 72 million (2016-KShs 73 million) as at 31 December 2017 while its total assets exceeded total liabilities by KShs 25.2 million (2016- assets exceeded liabilities by KShs 24.4 million).

Notes to the financial statements for the year ended 31 December 2017 (continued)

33. STATUS OF THE SUBSIDIARY COMPANIES (continued)

	Regal Paints Uganda Limited Limited KShs '000	Crown Paints Tanzania Limited KShs '000	Crown Paints Allied Industries KShs '000	Crown Paints Rwanda Limited KShs '000	Total KShs '000
31 December 2017					
Loss before tax	(1,827)	(76,953)	823	(31,782)	(109,739)
Accumulated losses	(360,996)	(411,216)	(71,808)	(53,983)	(898,003)
Net current assets/(liabilities)	(78,240)	(72,512)	23,944	(62,651)	(189,459)
Total net assets/(liabilities)	(4,057)	(9,777)	25,192	(46,949)	(35,591)
31 December 2016					
Loss before tax	(80,688)	(42,425)	(2,730)	(9,374)	(135,217)
Accumulated losses	(358,570)	(344,559)	(72,630)	(22,201)	(797,960)
Net current assets/(liabilities)	(38,743)	8,990	23,334	(29,349)	(35,858)
Total net assets/(liabilities)	(2,238)	63,967	24,370	(18,319)	67,780

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

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

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

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

Notes to the financial statements for the year ended 31 December 2017 (continued)

34. 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 optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, issued capital and retained earnings. The Group's capital requirements are currently met through internally generated funds from operations and external borrowing in the form of bank loans and short term notes. To maintain its capital structure, the Group may adjust dividend payment to shareholders. Consistent with others in the industry, the Group 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.

	2017 KShs'000	2016 KShs'000
Share capital	355,905	355,905
Share premium	80,174	80,174
Retained earnings	1,124,478	906,869
Equity	1,560,557	1,342,948
Total borrowings	1,488,654	1,221,995
Add: cash and cash equivalents (Note 28)	114,676	(71,258)
Net debt	1,603,330	1,150,737
Total capital	3,163,205	2,493,685
Gearing ratio	51%	46%

35. EVENTS AFTER THE REPORTING PERIOD

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

Share Register Periodic Report for April 2018

TOP 30 SHAREHOLDERS

Rank	Name	Residence	Total Shares	%
1	CROWN PAINTS AND BUILDING PRODUCTS LIMITED	LC	34,208,565	48.06%
2	BEAUMONT PROPERTIES LIMITED	FC	15,244,921	21.42%
3	BARCLAY HOLDINGS LIMITED	FC	9,702,000	13.63%
4	MAHENDRA DAHYABHAI PATEL	LI	672,060	0.94%
5	STANBIC NOMINEES PLC A/C NR1030823	FC	628,800	0.88%
6	MAHENDRA FULCHAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI	LI	602,817	0.85%
7	CFCFS NOMINEES LIMITED A/C HRJC	LC	332,600	0.47%
8	KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH BABLA	LI	303,600	0.43%
9	DSL MOMINEES PLC A/C ORCHARD ESTATE PLC	LC	280,188	0.39%
10	CROWN PAINTS AND BUILDING PRODUCTS PLC	LC	253,800	0.36%
11	MINESH MULCHAND SHAH	LI	204,832	0.29%
12	SAVITABEN VELJI RAICHAND SHAH	LI	220,275	0.31%
13	ZAVERCHAND PUNJA WAREHOUSES PLC	LC	211,200	0.30%
14	JOHN OKUNA OGANGO	LI	171,000	0.24%
15	MINESH M. SHAH	LI	147,858	0.21%
16	BIJAL MULCHAND SHAH	LI	147,312	0.21%
17	NISHITKUMAR RAMNIKLAL SHAH	LI	114,900	0.16%
18	PRAFULKUMAR HEMRAJ SHAH	LI	98,640	0.14%
19	ABDULRASUL ISMAIL THAWER	FI	110,550	0.16%
20	SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	LI	99,000	0.14%
21	SHAZIQUE ENTERPRISES LIMITED	LC	94,710	0.13%
22	PARESH P UPADHYAY & HASMUKH A JOSHI	LI	89,100	0.13%
23	SURESHCHANDRA RAICHAND SHAH	LI	83,127	0.12%
24	SAROJBEN PRAFULKUMAR SHAH	LI	82,020	0.12%
25	SANDIP VELJI SHAH	LI	78,621	0.11%
26	RAJNIKANT NATHOOBHAI SHAH	LI	77,220	0.11%
27	SHAMSUDIN J.A.RAYANI & ROSINAKHANU S. RAYANI	LI	74,568	0.10%
28	SANTOKH SINGH ASSI	LI	69,630	0.10%
29	SILVESTER MUCHINYI	LI	69,600	0.10%
30	RUPAM GULABSI BHATIA	LI	66,000	0.09%

	SHARES SELECTED		**64,539,514**	**90.67%**
	SHARES NOT SELECTED - 2,515 shareholders		**6,641,486**	**9.33%**
	SHARES ISSUED		**71,181,000**	**100.00%**

	TOTAL NUMBER OF CROWN PAINTS SHAREHOLDERS		**2,512**	
	NO. OF CROWN PAINTS SHAREHOLDERS AT THE CDSC		**1,735**	
	NO. OF CROWN PAINTS SHARES HELD AT THE CDSC		**23,092,538**	

Share Register Periodic Report for April 2018 (continued)

DEMAT ANALYSIS			
	SHARES	%	HOLDERS
CDSC	23,092,538	32.44%	1,735
CERTIFICATED	48,088,462	67.56%	777
TOTALS	**71,181,000**	**100%**	**2,512**

ANALYSIS BY VOLUME			
VOLUME	**SHARES**	**%**	**HOLDERS**
1 - 500	175,276	0.25%	995
501 - 5000	2,386,382	3.35%	1,204
5001 - 10000	1,114,465	1.57%	152
10001 - 100000	3,947,599	5.55%	143
100001 - 1000000	4,401,792	6.18%	15
>1000000	59,155,486	83.11%	3
TOTALS	**71,181,000**	**100.00%**	**2,512**

ANALYSIS BY DOMICILE			
DOMICILE	**SHARES**	**%**	**HOLDERS**
FOREIGN COMPANIES	25,588,221	35.95%	5
FOREIGN INDIVIDUALS	323,055	0.45%	29
LOCAL COMPANIES	36,157,190	50.80%	180
LOCAL INDIVIDUALS	9,112,534	12.80%	2,331
TOTAL	**71,181,000**	**100.00%**	**2,545**

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

PROXY FORM
CROWN PAINTS KENYA PLC

I/We ____

of ____

being a member/member of Crown Paints Kenya PLC 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 Sixty First Annual General Meeting of the Company to be held on 21 June 2018 and at any adjournment thereof.

Signed/Sealed this ______________day of ______________________________2018

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.


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