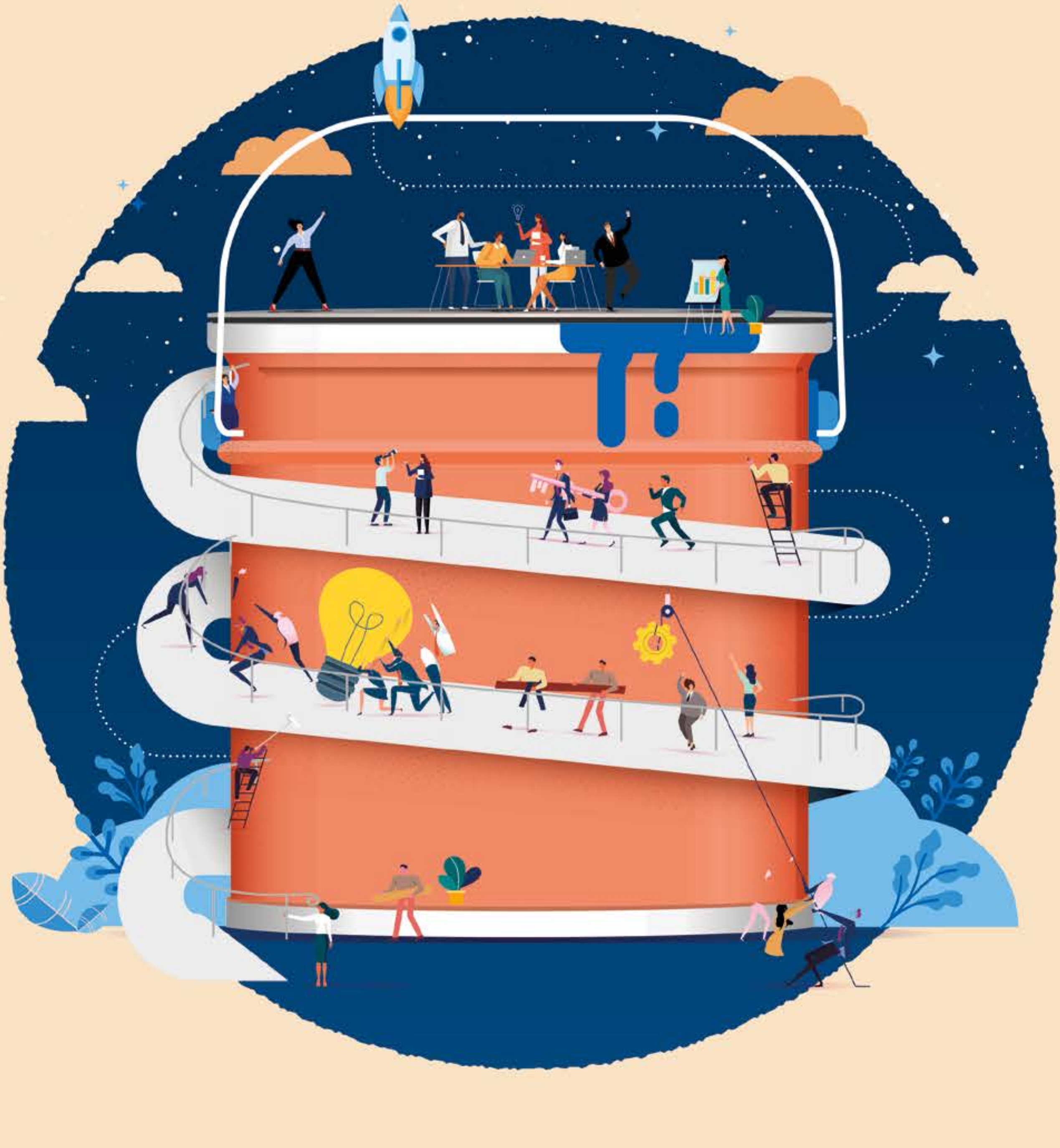
If you like it... Crown it!



2018 ANNUAL REPORT & FINANCIAL STATEMENTS

If you like it... Crown it!

1958

Established as The Walpamur Company (East Africa) Limited.

1978

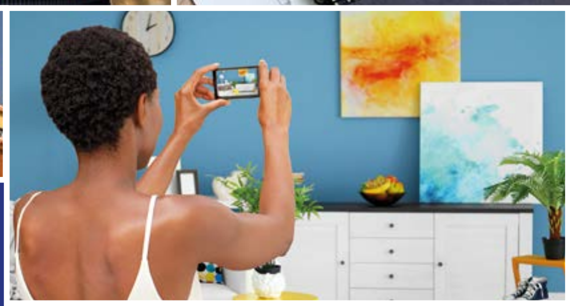
Company name changed to Crown Paints & Building Products (K) Ltd.

1992

- Business partnership with Berger Paints Kenya Ltd to form Crown Berger Kenya Ltd
- Enlisted on the Nairobi Stock Exchange market

1998

Charania Group acquires Crown Berger Kenya Ltd.



- Recertified for ISO 9001:2008
- Showroom concept introduced
- Partnerships with Armourcoat Ltd (UK) & Pidilite (India) for eco-friendly, specialized finishes and adhesives & construction chemicals, respectively
- Colour Visualizer within Crown Showrooms launched

2013

- Colour Visualizer within Crown Showrooms launched
- Crown Permacote Ultraguard with Silicone launched
- Certified for the OHSAS 18001:2007

2014

Crown Colour App launch, which enables clients to coordinate colour identity with most loved things and motivations with hues that will draw out the best of style and interests.

2015

2004

Business Partnership with PPG for Automotive Segment.

2006

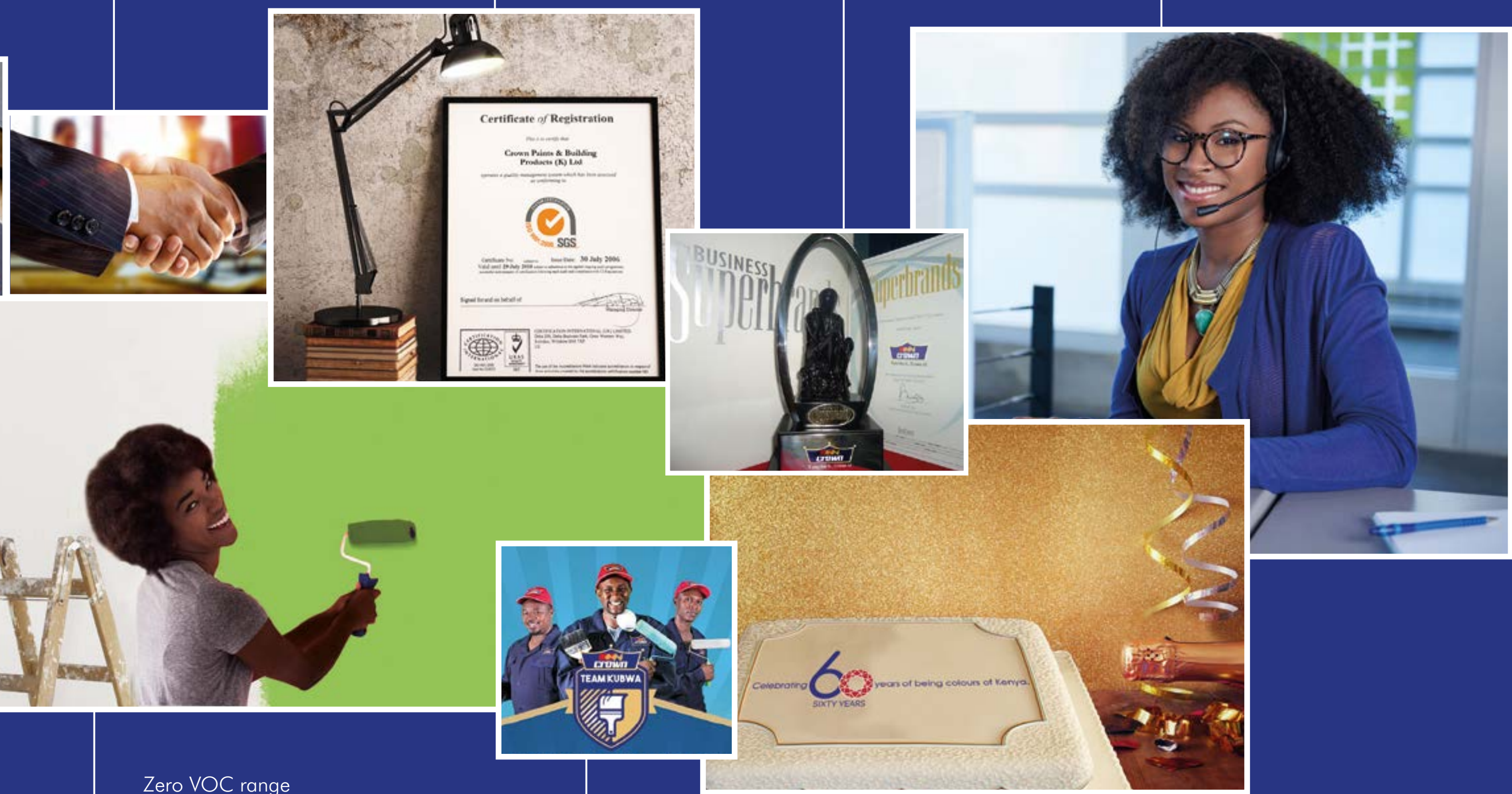
Qualified for ISO 9001:2000

2008

Attained a Superbrands status.

2011

- Business Partnership with Flowcrete, South Africa
- First paint company in East Africa to set up call centre service



Zero VOC range of products introduced. Same great quality paint that comes in many beautiful colour shades with the value addition of producing no toxic emissions thus making them safe for you and the environment as well.

2016

- Company name changed from Crown Paints Kenya Limited to Crown Paints Kenya PLC
- Crown showrooms rebranded to Crown Décor World
- First painter loyalty programme (Team Kubwa) launched within the app

2017

Crown Paints Kenya PLC celebrates 60 years of of being colours of Kenya.

2018

crown

If you like it... Crown it!

ALL WEATHER PROTECTION FOR WALLS FOR UP TO 15 YEARS

WITH SILICONE TECHNOLOGY FROM WACKER – GERMANY

SILICONE™

Water-repellent Paint

- Self cleaning
- UV resistance
- Environmentally friendly

www.crownpaints.co.ke | To place an order, call 0709 887 000 | CrownPaintsPLC

Content

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 62nd Annual General Meeting of the Company will be held at the Sarova Panafric Hotel, Kenyatta Avenue, Nairobi on 27th June 2019 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 31st December 2018 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 31st December 2018, and approve the closure of the Register of Members at 4.30 pm on 27th June 2019 for one day only.

5 To approve the Directors' remuneration paid in respect of the financial year ended 31st December 2018.

6 Directors:

a) Mr Mhamud Charania 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 31st December 2019 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2019.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 22nd May 2019

Notice of the Annual General Meeting (continued)

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

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

Share Register Periodic Report For April 2019

TOP 30 SHAREHOLDERS				
Rank	**Name**	**Residence**	**Total Shares**	**%**
1	CROWN PAINTS AND BUILDING PRODUCTS LTD	LC	34,462,365	48.42%
2	BEAUMONT PROPERTIES LIMITED	FC	15,650,536	21.99%
3	BARCLAY HOLDINGS LIMITED	FC	9,702,000	13.63%
4	MAHENDRA DAHYABHAI PATEL	LI	672,060	0.94%
5	STANBIC NOMINEES LTD A/C NR1030823	FC	639,000	0.90%
6	MAHENDRA FULCHAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI	LI	602,817	0.85%
7	CFCFS NOMINEES LIMITED A/C HRJC	LC	332,700	0.47%
8	KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH BABLA	LI	303,600	0.43%
9	MINESH MULCHAND SHAH	LI	287,090	0.40%
10	DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	LC	280,188	0.39%
11	SAVITABEN VELJI RAICHAND SHAH	LI	220,275	0.31%
12	ZAVERCHAND PUNJA WAREHOUSES LTD	LC	211,200	0.30%
13	JOHN OKUNA OGANGO	LI	174,700	0.25%
14	BIJAL MULCHAND SHAH	LI	127,312	0.18%
15	NISHITKUMAR RAMNIKLAL SHAH	LI	114,900	0.16%
16	ABDULRASUL ISMAIL THAWER	FI	110,550	0.16%
17	SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	LI	99,000	0.14%
18	PRAFULKUMAR HEMRAJ SHAH	LI	98,640	0.14%
19	SHAZIQUE ENTERPRISES LIMITED	LC	94,710	0.13%
20	PARESH P UPADHYAY & HASMUKH A JOSHI	LI	89,100	0.13%
21	SURESHCHANDRA RAICHAND SHAH	LI	83,127	0.12%
22	SAROJBEN PRAFULKUMAR SHAH	LI	82,020	0.12%
23	SANDIP VELJI SHAH	LI	78,621	0.11%
24	RAJNIKANT NATHOOBHAI SHAH	LI	77,220	0.11%
25	SHAMSUDIN J. A. RAYANI & ROSINAKHANU S. RAYANI	LI	74,568	0.10%
26	SANTOKH SINGH ASSI	FI	69,630	0.10%
27	SILVESTER MUCHINYI	LI	69,600	0.10%
28	RUPAM GULABSI BHATIA	LI	66,000	0.09%
29	JOHN WAHOME MURAGE	LI	65,505	0.09%
30	RAMABEN SUMANTRAI PATEL	LI	64,000	0.09%
	SHARES SELECTED		**65,003,034**	**91.32%**
	SHARES NOT SELECTED - 2,475 Shareholders		6,177,966	8.68%
	SHARES ISSUED		**71,181,000**	**100%**
	TOTAL NUMBER OF CROWN PAINTS SHAREHOLDERS		2,505	

Share Register Periodic Report For April 2019 (continued)

DEMAT ANALYSIS			
	SHARES	%	HOLDERS
CDSC	57,351,158	80.57%	1,743
CERTIFICATED	13,829,842	19.43%	762
TOTALS	**71,181,000**	**100%**	**2,505**

ANALYSIS BY DOMICILE			
DOMICILE	**SHARES**	**%**	**HOLDERS**
FOREIGN COMPANIES	26,030,536	36.57%	7
FOREIGN INDIVIDUALS	307,205	0.43%	24
LOCAL COMPANIES	36,148,192	50.78%	175
LOCAL INDIVIDUALS	8,695,067	12.22%	2,299
TOTAL	**71,181,000**	**100.00%**	**2,505**

ANALYSIS BY VOLUME			
VOLUME	**SHARES**	**%**	**HOLDERS**
1 - 500	170,136	0.24%	1,056
501 - 5,000	2,258,162	3.17%	1,156
5,001 - 10,000	1,037,360	1.46%	141
10,001 - 100,000	3,824,049	5.37%	136
100,001 - 1,000,000	4,076,392	5.73%	13
>1000,000	59,814,901	84.03%	3
TOTALS	**71,181,000**	**100.00%**	**2,505**

Chairman's Statement

The year 2018, has been a year with mixed results in which we recorded a growth in sales and gross profit but a decrease in profit before tax.

During the year Kenya showed a return to economic growth as its GDP grew an estimated 5.9% in 2018, from 4.9% in 2017 as the economy recovered from the effects of the prolonged electioneering period of 2017. The business environment improved as political stability and business confidence returned thus leading to a better output from the real estate and manufacturing sectors. The exchange rate during 2018 showed better stability than in 2017 which was of benefit to our company, taking into consideration that up to 65% of our raw materials are imported. However, despite the reduction in the interest rate to 9% in July 2018, the private sector especially small and medium enterprises faced a reduction in access to credit hence funding for their businesses.

Performance review

Overall the company performance for the subsidiaries Crown Paints Tanzania Ltd, Regal Paints Uganda Ltd and Crown Paints Rwanda Ltd remained depressed while the Kenyan performance though remaining profitable declined marginally due to changes in accounting for impairment losses in its financial assets. (new IFRS 9).

Our revenue grew by 13% to KShs 8.3 billion during 2018 up from KShs. 7.3 billion in 2017. At the gross profit level, the business remained positive but, due to an increase in operating costs the Company profit before tax decreased by 1% to KShs. 395 Million down from KShs. 398 in the previous year. Despite the drop-in profit before tax, the Company generated positive cash inflows of KShs. 332 Million as compared to a cash outflow of KShs. 114 Million in 2017.

Our Company is banking on the long-term business as we position our brand in the market to meet our customers changing needs. Our strategy for the region was well carried out by our dedicated team of management and staff with the support of our business partners.

Regional Market

On the regional front, the political environment has not led to a revamp in market activity in the paint sector of the construction industry. In Tanzania for example, there was slow growth because of uncertainty in the business environment and the recent reduction in foreign and domestic investment which was affected by the change in government policies. The Tanzanian market being largely an economy market, profitability remained under pressure due to cut throat competition.

Despite the enhanced regional integration through the East African Community, member States disputes and the spill-over effects of other neighboring countries conflict, continued to pose a risk to growth in the region. These challenges are constraining investment and market growth, and as a result are detrimental to the economic performance in the entire East African region.

In response to this, we continued to launch customer excellence initiatives which together with our strong brand leadership are expected to enable us to grow and remain relevant in the market.

Chairman's Statement (continued)

Corporate Governance

As a Board we remained committed to the values of good corporate governance. To this end, we enhanced our risk management practices that identified and ensured that the management proactively dealt with any risks that may have occurred during the year.

2019 outlook

We as a Board will continue to remain focused on the principles and values that have held high our Crown Brand and will continue to invest in our people and resources to enable us to approach the year 2019 with greater hope.

For our region in 2019, we envision that the economic environment will be stable and with an increased investor confidence level where the business environment improves leading to enhanced spending by our customers. We also look forward to the government investing heavily in its infrastructure projects and easing of political uncertainties to propel greater growth.

Appreciation

Finally, but most importantly, on behalf of the Board I want to extend my heartfelt gratitude to our shareholders, employees, customers and partners for their continued and inspiring support towards creating more value for all stakeholders.

To my fellow directors, I thank you for your dedication, support towards our Company throughout the year.

Mhamud Charania
Chairman
22 May 2019

PERFORMANCE

Our revenue grew by 13% to KShs. 8.3 billion during 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

"The Crown paints vision of being the most preferred innovative and colorful brand stood tall during 2018".

The year 2018, had a stable political and an increasingly competitive trading environment which resulted to mixed performances by the company in the various markets in the region which we operate. Overall the company faced difficult market conditions in all the subsidiaries Crown Paints Tanzania, Regal Paints Uganda and Crown Paints Rwanda. Of mention, the operation in Tanzania which slowed down our profit margins despite improvement in the Kenyan market which had triggered high demand for our products and services.

As our customers continue to look for transformative lifestyles, we at Crown have embarked on providing innovative ways using our research and development team to develop our product offering and keep up with this new demand.

Towards this, during 2018 we entered into partnerships with Walplast Products Pvt. Ltd, the world's largest leading manufacturer and exporter of wall putty. To cater for the demand from the lower economy sector, a new range of products was also launched to penetrate the low-cost sector.

Performance

The performance of the company during 2018, was impacted greatly by a high cost of production as cost of raw material increased as did other operating expenses. The effects of a credit crunch in Kenya, as lender became more prudent in lending affected sales collection for over the year, which in turn affected our cash inflows hence higher borrowing. Despite this, with both strategic and operational initiatives the Company was able to deliver a strong performance in revenue growth (13%). This potential for growth and with greater cost management will provide an opportunity for profitability growth during 2019.

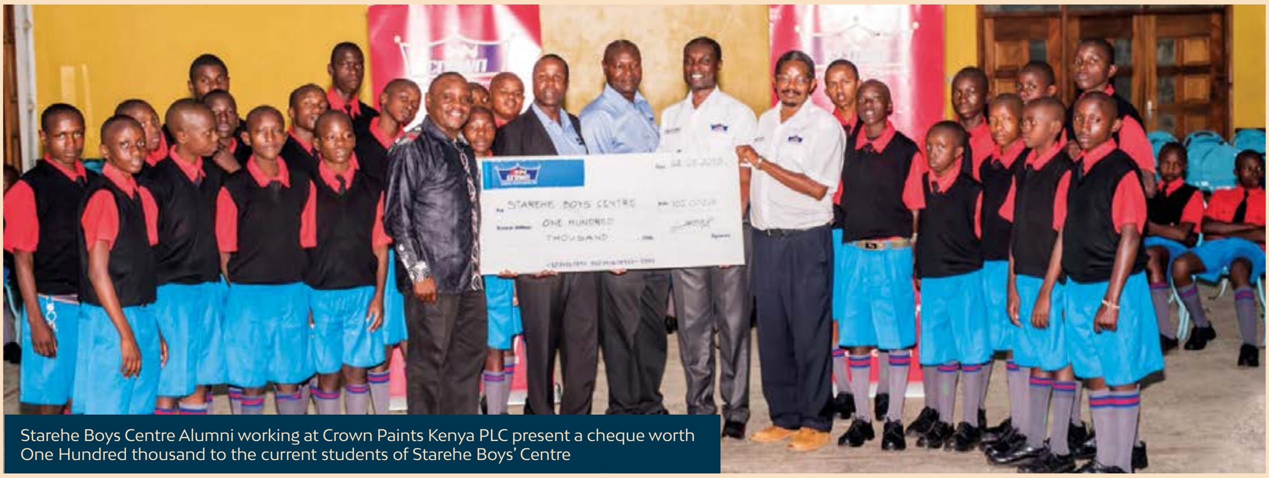
Strategy and operational

For sixty (60) years and counting, Crown has led the paint industry in Kenya by innovating towards success. We have built plants to boost production and develop new innovative products for our customers.

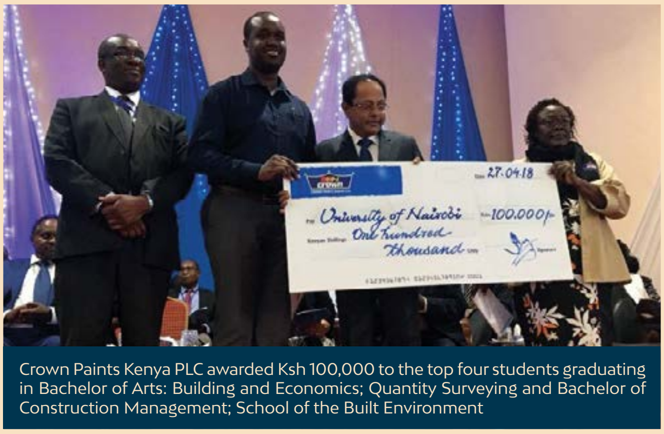
As part of our marketing strategy, we have enhanced our product availability to our customers up country to achieve maximum impact, through enhancing our distribution by pushing the product to smaller traders. The opening of showrooms in various towns, where our customers visits and see the various products we offer and various ways to decorate. Through our Team Kubwa initiative, we have been able to bring together painters where we offer them enhanced training on the use of our products.

In ensuring that we continue to remain relevant in the market, our product management team main aim is to launch and establish new products to the ever-changing markets.

Group Chief Executive Officer Statement (continued)

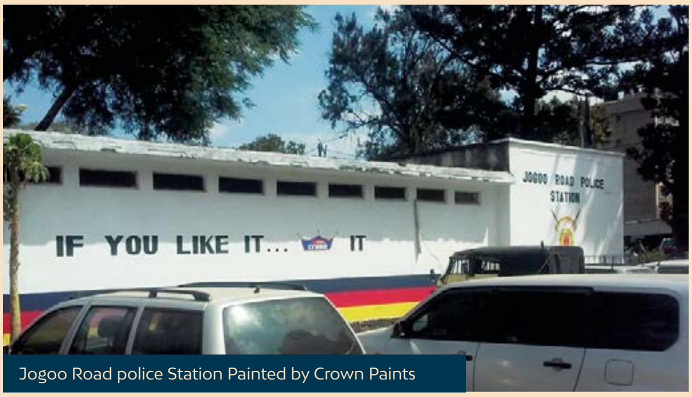

Starehe Boys Centre Alumni working at Crown Paints Kenya PLC present a cheque worth One Hundred thousand to the current students of Starehe Boys' Centre

Crown Paints repainted Njoro Sub County Hospital with the aim of enhancing the hospital's image as well as creating a positive ambience for the patients and staff. In addition Crown Paints donated beddings to be used at the inpatient wards.



Crown Paints Kenya PLC awarded Ksh 100,000 to the top four students graduating in Bachelor of Arts: Building and Economics; Quantity Surveying and Bachelor of Construction Management; School of the Built Environment


Jogoo Road Police station OCS Oira Misiani (Right) appreciates Crown Paints Group Human Resource Manager Nicholas Wanambisi (Left) for repainting and transforming the image of the station



Jogoo Road police Station Painted by Crown Paints

Crown Paints celebrated 60 Years of being the colours of Kenya. It was combined with the viewing of the Football World Cup 2018. The 3 Executive Directors during the function.


Our customers enjoying the match during the function.

Group Chief Executive Officer Statement (continued)

This market caters for both the upper and lower end of the economy.

During 2018, we launched Cement Base Skimming which is a new concept of cement base powder skimming with co-branding with Walplast Products Pvt. Ltd, NGAO Range of Products that focuses on Economy Market, Undercoat Emulsion to fill the market gap for undercoats for decorative which is applicable for Interior & Exterior and re-introduce the sanding sealer a wood finish.

I am optimistic that our strategy for capital investment and marketing will continue to grow our company in the region whereas our emphasis on efficiencies will lead to greater profitability.

For Crown, our people (staff) are an important asset. The Company has put in place processes to ensure that we have the best talent with appropriate skill and experience. The development of staff through training is core in our Human resource management. The trainings were a balance between business and personal needs that focused on service excellence, technical competencies and people management skills. Service Excellence has been given a lot of prominence and more than 95% of all employees have been trained in service excellence as part of the Company's strategy to reposition herself in terms of customer equity and customer value proposition.

Sustainability

After Sixty years of doing business in the region, Crown recognizes the need to continue creating linkages within the communities in which we operate in and beyond. The communities must prosper for us to continue doing business with them.

We are managing our environment by ensuring that we produce "green" products and at the same time managing our waste product by ensuring disposal as per the National Environment Management Authority (NEMA) standards. The successful adoption of best practices, materials, processes and products continues with excellent results in Product Improvements and costs. Our Company's' initiative of Waste Reduction, Reuse, recycle before Refuse practices are creating a great impact Environmentally.

To the community, by championing initiatives that benefit the community, by offering education sponsorship to the needy cases in the society and through other Corporate social responsibility (CSR)activities. Education visits to our factory are also hosted to college students with an interest in our line of operation. All the activities are aimed at positively improving the community lifestyles.

Outlook for 2019

Overall, for 2019, we have a positive outlook for the market demand as economic growth of the region expands, taking into consideration our position both in terms of strategic and operational preparedness. We also expect to draw benefits from the current calm political environment that has given a stable business environment and increased customer confidence. This is expected to drive up our performance and with cost optimization, our profitability.

On the other hand, we expect the competition in our industry to remain aggressive in terms of price and output. The Company will continue to draw from its wide range of innovate products, technology and its people to meet the need of the ever-changing market.

Conclusion

Finally, but most importantly, I want to extend my heartfelt gratitude to my fellow directors, shareholders, employees, customers and partners for their continued and inspiring support towards creating more value for all stakeholders to enhance economic growth of the company and the region. We will continue to count on your valued support.

Thank you and God bless you all.

Rakesh Rao
Group Chief Executive Director

Corporate Governance Report

Introduction

Corporate governance is the system of rules, practices, and processes by which the organization is directed and controlled. The Corporate Governance Code sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders.

In Crown Paints Kenya PLC (Crown), we remain committed to the standards of Corporate Governance and business ethics. Towards this Crown has established and maintains systems that ensure the high standards are at all levels. Crown does not only comply with the standards of the Capital Market Authority Code of Corporate Governance Practices for Issuers of Securities to the Public in Kenya but is committed to embed internal rules of engagement that support Corporate Governance. These internal rules are constituted in the Code of business conduct to which each employee is committed to. The Board of Directors governs Crown 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 is the Annual General Meeting of Shareholders. The Board of Directors (the Board) is responsible for the management of Crown. Other Crown executives have an assisting and supporting role.

The Board of Directors

The Board comprises 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 realize 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.

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.

Corporate Governance Report (continued)

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 16.

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 mandate 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 releases of notices in the local national press of its half-yearly and annual results in compliance with statutory requirements, issuing of the Annual Report, and the holding of the Annual General Meeting where the shareholders can ask questions and freely interact with the Board. The Company also has a web site www.crownpaints.co.ke where information about the organization is regularly updated.

Directors' Emoluments and Loans

The Non-executive Directors are paid a sitting allowance for every meeting attended. They are not eligible to any other remuneration and compensation scheme by the company.

The aggregate amount of emoluments paid to Directors for services is disclosed in Note 9, page 81 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Corporate Information

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

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

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

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

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

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

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

SECRETARY
Conrad Nyukuri
Axis Kenya,
ALN House, Eldama Ravine Close,
Off Eldama Ravine 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 2018, 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 15.

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

3. **GROUP RESULTS**
   The results for the year are set out on page 32.

4. **COMPANY RESULTS**
   The results for the year are set out on page 36.

5. **DIVIDENDS**
   Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 0.60 (2017: KShs 0.60) per share amounting to KShs 42,708,600 (2017: KShs 42,708,600).

6. **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.

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

8. **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

9. **BUSINESS REVIEW**
   During the year ended 31 December 2018, Group's revenue grew by 13% (KShs 964 million) compared to a growth of 0.05% (KShs 3.8 million) during the year ended 31 December 2017. However, the profit before tax during 2018 decreased by 1% when compared to a 46% growth for 2017.

Report of the Directors (continued)

9. BUSINESS REVIEW (continued)

In Kenya, the year ended 31 December 2018 had a stable economic growth as the economy recovered from the effects of the prolonged election period in 2017 which slowed down the economic growth. Kenya's economy performed better than the other East African countries, with the expected GDP growth of over 5.5%, which is an improvement over the year 2017. The business environment improved as political stability and business confidence increased which has seen an increased output from the real estate and manufacturing sectors. In 2018, the Group did not experience any benefit from the Kenyan Government declaration of the manufacturing sector as one of the key pillars to drive the economy in the Big 4 Agenda. On the foreign exchange front, the Kenya Shilling remained relatively stable during the year and we expect this to continue, as the political stability matures after the "handshake" between the President and the opposition leader, deepening the government's agenda of implementing economic reforms.

In the regional market, the political environment has not led to a revamp in market activity especially the construction sector. In Tanzania, there are risks of slow growth from uncertainty in the business environment and the recent reduction in foreign and domestic investment because of the change in government policies. The Tanzanian market being largely an economy market, profitability remains under pressure due to cut throat competition. Despite the enhanced regional integration through the East African Community, member country disputes and the spill-over effects in neighbouring countries conflict continue to pose a major risk to growth in the region. These challenges experienced in 2018, are constraining investment and growth, and hence damaging economic performance in the East African region and may do so again in 2019.

Despite all the above, the Group's 2018 performance improved as the Directors continued to manage the cost of doing business in line with the revenues generated.

The Board remains committed to risk management practices that identify and ensure management proactively 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.

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.

Report of the Directors (Continued)

9. BUSINESS REVIEW (continued)

Risk Strategic	**Competition**	**Mitigation** • The Group continuously monitors the market for the entry of new players and the threat that they offer.
	Economic/Political The political environment in the countries we operate in greatly influences the economic performance	• 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 2019 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 help needy cases in the society through sponsorship.

10. 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.

11. 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 11,087,000 has been charged to profit or loss in the year.

13. GOING CONCERN

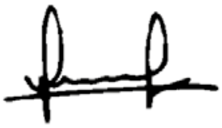
The directors have made an assessment of the company's and subsidiaries' ability to continue as a going concern and are satisfied that they have the resources to continue in business for the foreseeable future.

Report of the Directors (continued)

13. GOING CONCERN (continued)

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.

By Order of the Board



Conrad Nyukuri
Secretary
22 May 2019

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 the group's and company's 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 10th May 2019 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

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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 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 3 years on rotation basis.

The executive directors have employment contracts with the Company.

The table below shows the executive and the non-executive directors' emoluments in respect of qualifying services for the year ended 31 December 2018. The aggregate directors' emoluments are disclosed in notes 9 and 22.

Directors' Remuneration Report on The Financial Statements (continued)

31 Decembers 2018

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	-	-	108,892	6,218,284
Hussein H.R.J Charania	Vice- chairman	Executive	40,082,400	3,340,000	-	2,960,342	46,382,742
Rakesh K. Rao	Chief Executive Officer	Executive	33,722,400	2,810,000	-	5,042,040	41,574,440
Patrick M. Mwati	Finance Director	Executive	35,080,796**	2,320,000	-	6,942,266	44,343,062
Francis G.K. Maina	Director	Non- executive	-	-	634,000	-	634,000
Stephen B. Oundo	Director	Non- executive	-	-	814,500	-	814,500
Total			**114,994,988**	**8,470,000**	**1,448,500**	**15,053,540**	**139,967,028**

*Other benefits include housing, motor-vehicle allowances, gift vouchers, utilities, school fees and cash allowances.
** The amount includes payment made for accrued leave days totalling KShs 4,639,996.

Directors' Remuneration Report on The Financial Statements (continued)

31 Decembers 2017

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	6,109,392	-	-	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
Total			**116,749,408**	**4,235,000**	**1,980,000**	**14,943,814**	**137,908,222**

*Other 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

EY
Building a better working world

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
PO Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com

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 31 to 110, which comprise the consolidated and separate statements of financial position as at 31 December 2018, 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 2018, 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.

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

Material Uncertainty Related to Going Concern

We draw attention to note 33 to the financial statements, which explains the status of the company and its subsidiaries. As indicated in the note, the subsidiaries, which contribute significantly to the performance of the group have a history of making losses and during the year ended 31 December 2018, they reported a combined loss before tax of KShs 275.4 million (2017: KShs 109.7 million). These subsidiaries also depend on the parent company for financial support. In the period ended 31 December 2018, the parent company's current liabilities exceeded its current assets by KShs 606 million. These conditions, along with other matters as disclosed in note 33, indicate the existence of a material uncertainty that may cast significant doubt on both the company's and the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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.

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

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 6 to the financial statements, the company has an investment in subsidiaries totalling KShs 1.8 billion representing 30% of the total assets of the company. The 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. We focused on these amounts due to their significance as discussed below: • The investment in subsidiaries is material to the financial statements of the company. • The subsidiaries are loss making and rely on the parent company for provision of working capital. We also focussed on the adequacy of the disclosures of investment in subsidiaries in Note 6 and status of the subsidiary companies in Note 33 to the financial statements, which are significant to the understanding of the amounts invested in the subsidiaries and the status of these subsidiaries. Given that significant judgement has been made by management in assessing the impairment in subsidiaries 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.	We carried out procedures to understand management's process for identifying impairment triggers, and considered management's assessment of impairment for individual investments. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. We evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation such as projections of sales volume and selling prices, gross margin and discount rates. 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 reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due. We assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with IFRS disclosure requirements.

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

Allowance for expected credit losses	
The expected credit losses on financial assets carried at amortised cost are determined in accordance with IFRS 9 - Financial Instruments. The Group's financial assets at amortised cost include; amounts due from related companies, trade receivables and cash and bank balances. The impairment of these financial assets was considered to be a key audit matter because significant judgement was involved in determining the expected credit losses as disclosed in note 2(r) to the financial statements. Key areas of judgement included: • the interpretation of the requirements to determine impairment in accordance with IFRS 9, which is reflected in the Group's expected credit loss model; • the identification of exposures with a significant deterioration in credit quality; • assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors; and • the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model. As disclosed in note 9 to the financial statements, the company has amounts due from related companies totaling KShs 855 million. The parent company has recorded a provision for the expected credit loss amounting to KShs 738 million. Further, as disclosed in note 8, the group has trade receivables totalling KShs 1.8 billion, comprising 32% of total assets of the group. The group has recorded a provision for the expected credit loss amounting to KShs 814 million in relation to these receivables. Due to the significance of trade receivables and amount due from related companies and the related significant judgement this is considered a key audit matter.	Our audit procedures included the following: • We assessed and tested the design and operating effectiveness of the key controls over the: i. data used to determine the expected credit losses on financial assets carried at amortised cost. ii. expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We assessed the modelling techniques/methodology against the requirements of IFRS 9 - Financial Instruments. • We assessed and tested the material modelling assumptions as well as overlays with a focus on the: i. key modelling assumptions adopted by the Group; ii. basis for and data used to determine overlays; and iii. sensitivity of the collective provisions to changes in modelling assumptions. In addition, we assessed the adequacy of the disclosures in the financial statements.

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

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.

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.

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

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.

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.

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

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 16 - 19 is consistent with the financial statements.
ii) In our opinion, the auditable part of directors' remuneration report on page 21 to 23 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
22 May 2019

Consolidated Statement of Financial Position as at 31 December 2018

	Note	2018 KShs'000	2017 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,501,813	1,281,117
Intangible assets	4	37,505	35,923
Prepaid leases on land	5	7,434	7,699
Deferred tax	14	35,117	1,501
		1,581,869	1,326,240
CURRENT ASSETS			
Inventories	7	2,140,212	1,884,274
Trade and other receivables	8	1,249,593	1,764,680
Amounts due from related companies	9(i)	95,943	559,607
Cash and cash equivalents	28	364,136	214,222
Current tax recoverable	10	43,940	122,584
		3,893,824	4,545,367
TOTAL ASSETS		**5,475,693**	**5,871,607**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	670,955	1,401,711
		1,026,860	1,757,616
NON-CURRENT LIABILITIES			
Bank loans	16	604,760	296,107
		604,760	296,107
CURRENT LIABILITIES			
Bank overdraft	15	31,872	328,898
Bank loans	16	606,534	435,168
Short term notes	17	1,105,756	757,379
Amounts due to related companies	9(ii)	243,228	147,787
Trade and other payables	18	1,848,572	2,148,356
Provisions	29 (b)	7,915	-
Current tax payable	10	196	296
		3,844,073	3,817,884
TOTAL EQUITY AND LIABILITIES		**5,475,693**	**5,871,607**

The financial statements were approved by the Board of Directors on 10th May 2019 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 2018

	Note	2018 KShs'000	2017 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	8,315,910	7,351,326
COST OF SALES	20	(5,284,624)	(4,552,750)
GROSS PROFIT		3,031,286	2,798,576
OTHER INCOME	21	655,379	386,808
		3,686,665	3,185,384
EXPENSES:-			
Administration and establishment	22	(1,764,045)	(1,606,545)
Selling and distribution	23	(1,251,621)	(971,508)
Finance costs	24	(275,064)	(209,202)
		(3,290,730)	(2,787,255)
PROFIT BEFORE TAX	26	395,935	398,129
TAX EXPENSE	10	(212,122)	(174,835)
PROFIT FOR THE YEAR		183,813	223,294
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		(9,293)	6,371
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(9,293)	6,371
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
TOTAL OTHER COMPREHENSIVE INCOME		(9,293)	6,371
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		174,520	229,665
ATTRIBUTABLE TO:			
Owners of the parent		174,520	229,665
Non- controlling interest		-	-
		174,520	229,665
Basic and diluted earnings per share (KShs)	27	2.58	3.14

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Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	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 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	-
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	101,091	95,968	1,124,478	1,757,616
At 1 January 2018		355,905	80,174	101,091	95,968	1,124,478	1,757,616
Impact of IFRS 9 adoption	1	-	-	-	-	(947,876)	(947,876)
Deferred tax on IFRS 9 adoption	1	-	-	-	-	79,350	79,350
At 1 January 2018 (restated)		355,905	80174	101,091	95,968	255,952	889,090
Profit for the year		-	-	-	-	183,813	183,813
Other comprehensive income		-	-	-	(9,293)	-	(9,293)
Total comprehensive Income		-	-	-	(9,293)	183,813	174,520
Transfer of revaluation reserve on disposal		-	-	(1,119)	-	1,119	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	-	336	336
Transfer of excess depreciation- 2018		-	-	(18,743)	-	18,743	-
Deferred tax on excess depreciation	14	-	-	-	-	5,623	5,623
2017 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
At 31 December 2018		355,905	80,174	81,229	86,675	422,877	1,026,860

Consolidated Statement of Cash Flows for the year ended 31 December 2018

OPERATING ACTIVITIES	Note	2018 KShs'000	2017 KShs'000
Profit before tax		395,935	398,129
Adjustments for:-			
Depreciation on property, plant and equipment	3	142,668	118,956
Amortisation of intangible assets	4	14,893	14,830
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		44,363	8,776
Unrealised foreign exchange gain		(52,501)	(15,829)
Interest expense	24	275,064	209,202
Interest income	21	(2,270)	(1,103)
Allowance for bad debts – third parties	23	177,779	114,856
Allowance for bad debts – related parties	23	14,345	-
Bad debts written off	23	5,903	17,733
Leave accrual write back	21	(790)	(2,629)
Inventory write-down	7	41,600	38,938
Reversals of inventory write down	7	(41,776)	(39,821)
Provision for legal cases	29 (b)	7,915	-
Loss/(gain) on disposal of property, plant and equipment	21 & 22	1,021	2,533
Operating profit before working capital changes		1,024,414	864,836
Increase in trade and other receivables		(143,221)	(428,421)
Increase in inventories		(255,762)	(379,838)
(Decrease)/ increase in trade and other payables		(298,995)	310,697
Increase in amounts due from related parties		(31,847)	(83,934)
Increase/ (decrease) in amounts due to related parties		95,442	(151,308)
Cash generated from operations		390,031	132,032
Income tax paid	10	(81,885)	(144,663)
Interest received	21	2,270	1,103
Interest paid		(275,064)	(185,789)
Net cash generated from/ (used in) operating activities		35,352	(197,317)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(367,898)	(190,927)
Purchase of intangible assets	4	(16,751)	(14,096)
Proceeds on sale of property, plant and equipment		1,178	1,363
Net cash used in investing activities		(383,471)	(203,660)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	2,680,305	1,512,169
Repayment of bank loans	16	(2,199,423)	(1,498,078)
Proceeds from short term notes	17	424,652	2,856,916
Repayment of short term notes	17	(76,275)	(2,625,554)
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash generated from financing activities		786,550	202,744
Net increase/ (decrease) in cash and cash equivalents		438,431	(198,233)
Cash and cash equivalents at the beginning of the year		(114,676)	71,258
Effect of exchange rate changes on cash and cash equivalents		8,509	12,299
Cash and cash equivalents at the end of the year	28	332,264	(114,676)

Company Statement of Financial Position as at 31 December 2018

ASSETS	Note	2018 KShs'000	2017 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,187,390	1,117,808
Intangible assets	4	31,213	28,214
Prepaid leases on land	5	7,434	7,699
Investments in subsidiary companies	6	1,789,285	881,095
Deferred tax	14	35,117	1,501
		3,050,439	2,036,317
CURRENT ASSETS			
Inventories	7	1,668,841	1,492,184
Trade and other receivables	8	923,058	1,221,640
Amounts due from related parties	9(i)	116,928	1,468,757
Current tax recoverable	10	21,718	104,978
Cash and cash equivalents	28	279,355	127,346
		3,009,900	4,414,905
TOTAL ASSETS		**6,060,339**	**6,451,222**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	1,791,004	2,318,396
		2,146,909	2,674,301
NON CURRENT LIABILITIES			
Bank loans	16	302,512	278,968
		302,512	278,968
CURRENT LIABILITIES			
Bank overdraft	15	31,872	328,759
Bank loans	16	598,168	428,457
Short term notes	17	1,105,756	757,379
Trade and other payables	18	1,572,934	1,826,336
Provisions	29 (b)	7,915	-
Amounts due to related parties	9(ii)	294,273	157,022
		3,610,918	3,497,953
TOTAL EQUITY AND LIABILITIES		**6,060,339**	**6,451,222**

The financial statements were approved by the Board of Directors on 10th May 2019 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 2018

	Note	2018 KShs'000	2017 KShs'000
REVENUE	19	7,837,707	6,790,999
COST OF SALES	20	(4,992,505)	(4,284,608)
GROSS PROFIT		2,845,202	2,506,391
OTHER INCOME	21	466,659	294,510
		3,311,861	2,800,901
EXPENSES: -			
Administration and establishment	22	(1,383,716)	(1,306,691)
Selling and distribution	23	(1,289,933)	(779,221)
Finance costs	24	(260,704)	(208,774)
		(2,934,353)	(2,294,686)
PROFIT BEFORE TAX	26	377,508	506,215
TAX EXPENSE	10	(209,748)	(173,182)
PROFIT FOR THE YEAR		167,760	333,033
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
TOTAL OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		167,760	333,033
Basic and diluted earnings per share (KShs)	27	2.36	4.68

Company Statement of Changes in Equity
For the year ended 31 December 2018

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
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
At 1 January 2018		355,905	80,174	141,467	2,096,755	2,674,301
Impact of IFRS 9 adoption	1	-	-	-	(737,752)	(737,752)
Deferred tax on IFRS 9 adoption	1	-	-	-	79,350	79,350
At 1 January 2018 (restated)		355,905	80,174	141,467	1,438,353	2,015,899
Profit for the year		-	-	-	167,760	167,760
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	167,760	167,760
Transfer of revaluation reserve on disposal		-	-	(1,119)	1,119	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	336	336
Transfer of excess depreciation- 2018		-	-	(18,743)	18,743	-
Deferred tax on excess depreciation	14	-	-	-	5,623	5,623
2017 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2018		355,905	80,174	121,605	1,589,225	2,146,909

If you like it... Crown it!

Company Statement of Cash Flows
For the year ended 31 December 2018

OPERATING ACTIVITIES	Note	2018 KShs'000	2017 KShs'000
Profit before tax		377,508	506,215
Adjustments for:-			
Depreciation on property, plant and equipment	3	104,842	88,709
Amortisation of intangible assets	4	12,398	12,790
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange loss		18,836	3,415
Unrealised exchange gain		(20,040)	(1,742)
Interest expense	24	260,704	208,774
Interest income	21	(1,122)	(1,103)
Allowance for bad debts-third parties	23	132,452	86,388
Allowance for bad debts-related parties	23	308,205	-
Bad debts written off	23	3,908	8,678
Leave accrual write-back	21	(681)	(2,629)
Inventory write-downs	7	28,519	37,065
Reversals of inventory write down	7	(40,744)	(39,821)
Provision for legal cases	29(b)	7,915	-
Loss / (gain) on disposal of property, plant and equipment	22	1,370	2,573
Operating profit before working capital changes		1,194,335	909,577
Increase in trade and other receivables		(102,279)	(282,639)
Increase in inventories		(164,432)	(217,602)
(Decrease)/ increase in trade and other payables		(252,721)	149,559
Increase in amounts due from related parties		(337,817)	(384,384)
Increase/ (decrease) in amounts due to related parties		137,251	(147,289)
Cash generated from operations		474,337	27,222
Income tax paid	10	(74,795)	(139,709)
Interest received	21	1,122	1,103
Interest paid		(260,704)	(186,673)
Net cash generated from/(used in) operating activities		139,960	(298,057)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(176,649)	(92,988)
Purchase of intangible assets	4	(15,397)	(11,246)
Proceeds from sale of property, plant and equipment		855	1,285
Net cash used in investing activities		(191,191)	(102,949)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	2,384,945	1,487,107
Repayments of bank loans	16	(2,191,690)	(1,495,554)
Proceeds from short term notes	17	424,652	2,856,916
Repayments of short term notes	17	(76,275)	(2,625,554)
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash generated from financing activities		498,923	180,206
Net increase/(decrease) in cash and cash equivalents		447,692	(220,800)
Cash and cash equivalents at the beginning of the year		(201,413)	23,268
Effect of exchange rate changes on cash and cash equivalents		1,204	(3,881)
Cash and cash equivalents at the end of the year	28	247,483	(201,413)

Notes to the financial statements for the year ended 31 December 2018

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 2018. 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. The company applied International Financial Reporting Standards IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces International Accounting Standards IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 was as follows:

	GROUP KShs '000	COMPANY KShs '000
Assets		
Trade and other receivables (Note 8)	(474,625)	(264,501)
Related party balances (Note 9)	(473,251)	(473,251)
	(947,876)	(737,752)
Deferred tax asset (Note 14)	79,350	79,350
	(868,526)	(658,402)
Total adjustment on equity:		
Retained earnings	(868,526)	(658,402)

The nature of these adjustments is described below:

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through Other Comprehensive Income OCI. The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

IFRS 9 Financial Instruments (continued)

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied prospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The following are the changes in the classification of the group's financial assets:

Trade receivables, amounts due from related companies and cash and bank balances classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 January 2018.

	IAS 39 measurement category Loans and receivables profit or loss KShs '000	IFRS 9 measurement category Fair value through cost KShs '000	Amortised KShs '000
Group			
Trade and other receivables*	1,536,670	-	1,062,045
Amounts due from related companies*	559,607	-	86,356
Cash and bank balances	214,222	-	214,222
	2,310,499	**-**	**1,362,623**
Company			
Trade and other receivables*	1,038,608	-	774,107
Amounts due from related companies*	1,468,757	-	995,506
Cash and bank balances	127,346	-	127,346
	2,634,711	**-**	**1,896,959**

* The change in carrying amount is a result of additional impairment allowance. See the discussion on impairment below.

Hedge accounting- The Group does not apply any hedge accounting thus no impact.

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

IFRS 9 Financial Instruments (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. IFRS 9 requires the company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9 the Group recognised additional impairment on the Group's trade receivables and related companies of KShs 947,876,000 (Company KShs 737,752,000), which resulted in a decrease in retained earnings of KShs 868,526,000 (Company KShs 658,402,000) net of tax as at 1 January 2018.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

Group

	Allowance for impairment under IAS 39 as at 31 December 2017 KShs '000	Remeasurement KShs '000	ECL under IFRS 9 as at 1 January 2018 KShs '000
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9	346,502	947,876	1,294,378

Company

	Allowance for impairment under IAS 39 as at 31 December 2017 KShs '000	Remeasurement KShs '000	ECL under IFRS 9 as at 1 January 2018 KShs '000
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9	264,345	737,752	1,002,097

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related Interpretations.

The adoption of IFRS 15 did not have a material impact on the financial statements thus no adjustment was passed as at 1 January 2018.

The reasons for the lack of changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 are described below:

Some contracts for the sale of goods provide customers with rebates. Before adopting IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of rebates. Under IFRS 15, rebates give rise to variable consideration.

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

IFRS 15 Revenue from Contracts with Customers (continued)

Rebates
Before the adoption of IFRS 15, the Group computed the rebates for the specific qualifying customers at the end of each month and included an allowance for rebates in trade and other receivables with a corresponding debit rebates expense that was set off with the gross revenue for the purpose of the consolidated and separate financial statements. Under IFRS 15, retrospective rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group applied the most likely amount method. The rebates are based on a pre-agreed rate on purchase volume made in a period, usually one month.

IFRS 15 adoption did not impact on the profile of revenue recognition as the rebates were previously considered in the reported revenue balances.

Revenue recognition
Revenue is recognized 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 recognized.

Sale of goods
Revenue from the sale of goods is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of goods. The normal credit terms are 30days upon delivery.

Lease income
Income arising from operating leases on warehouse is accounted for on a straight-line basis over the lease terms.

All other income earned by the Group is recognized as it accrues.

The disclosures relating to the sales to and receivables from customers are set out in detail in Notes 8 and 19 to the financial statements.

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

IFRS 16 Leases

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

Key features:

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

Transition
The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The Group intends to use modified retrospective transition approach on adoption of the standard.

The Directors are still in the process of assessing the full impact of the application of IFRS 16 on the Group's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the Directors complete the detailed review.

Notes to the financial statements for the year ended 31 December 2018 (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 Company and its subsidiaries as at 31 December 2018.
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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- 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).

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency transactions

(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.

d) Revenue recognition

Policy before 1 January 2019

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 and customer acceptance and is stated net of value added tax, returns, rebates and discounts.

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

Tolling fees

In 2017, 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

Change in accounting policy (Policy after 01 January 2018)

Revenue from contracts with customers

The Group is in the business of manufacturing and sale of paints and adhesive products. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The Group has generally concluded that it is the principal in its revenue arrangements, except for the Akzonobel South Africa (pty) Limited contract where it is acting as an agent because it typically controls the goods or services before transferring them to the customer.

Sale of goods

Revenue from sale of paints and adhesive products is recognised at the point in time when control of the product is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points), currently none. In determining the transaction price for the sale of the products, the company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with rebates. The rebates give rise to variable consideration.

If you like it... Crown it!

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

Rebates
The Group provides retrospective rebates to certain customers based on a pre-agreed rate on purchase volumes made in a month. Rebates are computed on a monthly basis and offset against revenues and trade receivables recognised in the same month from the specific customers.

Significant financing component
The Group has no significant financing components from its customers.

e) Taxation

Current income tax
Current income tax assets and liabilities for the current period are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation

Deferred tax

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables that are stated with the amount of value added tax included.

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment

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

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

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

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

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

Land is stated at cost less any accumulated impairment losses.

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off carrying 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%

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment

An item of property, plant and equipment and any significant part initially recognized is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

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 2018 (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 capitalized during the year ended 31 December 2018 (2017: KShs Nil).

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).

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

During the year, the Group applied IFRS 9 Financial instruments prospectively with an initial application date of 1 January 2018. Consequently, the accounting policies applied for the comparative balances are based on the accounting standard applied before IFRS 9. The accounting policies applied for the comparative and current year balances are indicated below.

i) Financial assets

Policy before 01 January 2018

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Loans and receivables (continued)

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.

Derecognition

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

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

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

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Impairment of financial assets (continued)

Policy after 01 January 2018

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in note 2 (b) Revenue recognition.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Policy after 01 January 2018 (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, amount due from related companies and bank and cash balances.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group does not have any financial assets classified as debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Policy after 01 January 2018 (continued)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have any financial assets classified as equity instruments at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Group does not have any financial assets classified under this category.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Policy after 01 January 2018 (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is primarily derecognised (i.e., removed from the Group's 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 of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. 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.

Impairment of financial assets
For trade receivables and bank balances, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors, banks and the economic environment.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IFRS 9/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.

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.

iii) 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

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Inventories (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

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

p) Employee benefits

Defined 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment losses on financial assets-IAS 39 (applicable before 1 January 2018)

The Group reviews its receivables' portfolio regularly to assess the likelihood of impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual debtor in that portfolio. Refer to Note 8 for disclosure on the impaired receivables.

Impairment losses on financial assets-IFRS 9 (applicable from 1 January 2018)The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is based on the Group's historical observed default rates. The Group will revise the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment losses on financial assets-IAS 39 (applicable before 1 January 2018) (continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimation. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 8 and 9.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Judgements (continued)

Impairment of financial instruments (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 (Cash Generating Unit) 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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impairment of non-financial assets (continued)

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 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2018

	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 2018	32,152	673,314	343,701	187,287	287,331	3,088	1,526,873
Additions	-	11,425	176,206	37,542	110,140	32,585	367,898
Transfer from WIP	-	2,977	-	-	-	(2,977)	-
Disposals	-	-	-	(4,092)	-	-	(4,092)
Exchange differences	-	-	(2,346)	(743)	(401)	(111)	(3,601)
At 31 December 2018	32,152	687,716	517,561	219,994	397,070	32,585	1,887,078
Accumulated depreciation							
At 1 January 2018	-	13,010	85,790	68,267	78,689	-	245,756
Charge for the year	-	14,322	34,635	44,865	48,846	-	142,668
Eliminated on disposals	-	-	-	(1,867)	-	-	(1,867)
Exchange differences	-	6	(680)	(514)	(104)	-	(1,292)
At 31 December 2018	-	27,338	119,745	110,751	127,431	-	385,265
Net carrying amount	32,152	660,378	397,816	109,243	269,639	32,585	1,501,813

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

	Buildings	Plant and machinery	Motor vehicles	Furniture, fittings and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Net carrying amount	504,411	384,232	68,571	295,997	1,253,210

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – 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 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	208,642	3,088	1,281,117

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

	Buildings	Plant and machinery	Motor vehicles	Furniture, fittings and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2018

	Freehold land	Buildings	Plant and machinery	Motor vehicles equipment	Fixtures, fittings and	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation						
At 1 January 2018	32,152	673,315	190,484	134,832	174,786	1,205,569
Additions	-	11,425	51,771	32,353	81,100	176,649
Disposals	-	-	-	(3,015)	-	(3,015)
At 31 December 2018	32,152	684,740	242,255	164,170	255,886	1,379,203
Accumulated depreciation						
At 1 January 2018	-	13,010	14,431	32,182	28,138	87,761
Charge for the year	-	13,584	16,417	37,422	37,419	104,842
Eliminated on disposals	-	-	-	(790)	-	(790)
At 31 December 2018	-	26,594	30,848	68,814	65,557	191,813
Carrying Amount						
At 31 December 2018	32,152	658,146	211,407	95,356	190,329	1,187,390

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

	Buildings	Plant and machinery	Motor vehicles equipment	Fixtures, fittings and	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Carrying amount	502,178	197,823	54,686	216,686	971,373

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2017

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 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 for 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	Fixtures, fittings and equipment KShs'000	Total 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 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2018 (continued)

No borrowing costs were capitalized during the year ended 31 December 2018 (2017: Nil)

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.

(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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Under International Accounting Standards 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.

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Cost				
At 1 January	151,599	137,521	137,749	126,503
Additions	16,751	14,096	15,397	11,246
Exchange difference	(478)	(18)	-	-
At 31 December	167,872	151,599	153,146	137,749
Amortisation				
At 1 January	115,676	100,885	109,535	96,745
Charge for the year	14,893	14,830	12,398	12,790
Exchange difference	(202)	(39)	-	-
At 31 December	130,367	115,676	121,933	109,535
Carrying Amount	37,505	35,923	31,213	28,214

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 2018 (2017: Nil)
No intangible assets have been pledged as security (2017: Nil).

Notes to the financial statements for the year ended 31 December 2018 (continued)

5. PREPAID LEASES	**GROUP & COMPANY** **2018** **KShs'000**	**2017** **KShs'000**
Cost		
At 1 January and December	13,000	13,000
Accumulated amortisation		
At 1 January	5,301	5,036
Charge for the year	265	265
At 31 December	5,566	5,301
Carrying Amount	7,434	7,699

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 2018 was 28 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2018 was 28 years.

Notes to the financial statements for the year ended 31 December 2018 (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	Holding %	2018 KShs'000	2017 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) 1,039,203 ordinary shares of KShs 288 each, Share premium- 1,034,203 shares of KShs 431 (2017; 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	745,209	365,372
Crown Paints Tanzania Limited 75,413 ordinary shares of KShs 4,525 each, share premium 65,413 shares of KShs 6,603 (2017; 42,800 ordinary shares of KShs 4,649 each, share premium 32,800 shares of KShs 6,660)	Tanzania	Selling of auto paints and decorative products	100	773,162	417,430
Crown Paints Rwanda Limited 10,521 ordinary shares of KShs 1,148 each, share premium 9,521 shares of KShs 1,6997 each (2017; 1,000 ordinary shares of KShs 1,293 each)	Rwanda	Selling of auto paints and decorative products	100	173,914	1,293
				1,789,285	881,095

During the year ended 31 December 2018, an amount of KShs 908,190,000, made up of KShs 379,837,000, KShs 355,732,000 and KShs 172,621,000 owing from Regal Paints Uganda Limited, Crown Paints Tanzania Limited and Crown Paints Rwanda Limited, respectively, was capitalised.

Notes to the financial statements for the year ended 31 December 2018 (continued)

7. INVENTORIES

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Finished goods and packaging materials	919,292	809,299	684,469	604,485
Raw materials	816,008	681,380	604,293	500,828
Goods in transit	411,697	423,414	396,516	420,968
Work In progress	56,847	35,693	29,153	23,718
	2,203,844	1,949,786	1,714,431	1,549,999
Inventories write-down to NRV	(63,632)	(65,512)	(45,590)	(57,815)
	2,140,212	1,884,274	1,668,841	1,492,184

The amount of inventories write-down reversed during the year was KShs. 41,776,000 (2017: KShs 39,821,000) for the Group and KShs. 40,744,000 (2017: KShs 39,821,000) for the Company, for inventories carried at net realisable value. This is recognised in other income, Note 21.

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

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At the beginning of the year	65,512	67,730	57,815	60,571
Provision for the year (note 23)	41,600	38,938	28,519	37,065
Used in the year – write off	(1,704)	(1,335)	-	-
Reversals of write-down (note 21)	(41,776)	(39,821)	(40,744)	(39,821)
	63,632	65,512	45,590	57,815

8. TRADE AND OTHER RECEIVABLES

Trade receivables	956,228	1,465,699	757,751	995,110
Other receivables	147,739	128,511	50,332	64,194
Prepayments	145,626	170,470	114,975	162,336
	1,249,593	1,764,680	923,058	1,221,640

The average credit period on sales of finished goods is 30 days. Other receivables consist of staff loans, staff floats and deposits with suppliers. Staff loans are issued to staff to purchase motor vehicles at an interest rate of 10%, 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 2018, the Group's trade receivables with initial value of KShs 814,094,000 (2017: KShs 346,502,000) were fully provided for. The Company's trade receivables with initial value of KShs 504,893,000 (2017: KShs 264,345,000) were fully provided for.

Notes to the financial statements for the year ended 31 December 2018 (continued)

8. TRADE AND OTHER RECEIVABLES (continued)

Trade and other receivables are carried net of expected credit losses (ECLs)/impairment losses. The movement in expected credit losses/impairment losses is as set out below:

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At the beginning of the year	346,502	327,196	264,345	246,694
Adjustment on initial application of IFRS 9	474,625	-	264,501	-
Restated balance	821,127	327,196	528,846	246,694
Charge for the year (Note 23)	177,779	114,856	132,452	86,388
Used during the year (write-off)	(16,751)	(26,813)	-	-
Recoveries during the year (Note 21)	(168,061)	(68,737)	(156,405)	(68,737)
	814,094	346,502	504,893	264,345
Ageing analysis of trade receivables:				
Less than 60 days (neither past due nor impaired)	950,702	1,089,359	814,638	758,998
61 days to 90 days	131,081	114,824	74,066	50,273
Over 90 days	688,539	608,018	373,940	450,184
	1,770,322	1,812,201	1,262,644	1,259,455
Allowance for ECLs/impairment	(814,094)	(346,502)	(504,893)	(264,345)
Net	956,228	1,465,699	757,751	995,110

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. The significant change in trade receivable balance is attributed to improved debt collection leading to a drop in trade debtors' turnover days from 104 days in 2017 to 84days despite the increase in sales by 13% and 15% for Group and Company respectively. In 2018, KShs 177,779,000 (2017: KShs 114,856,000) for the Group and KShs 132,452,000 (2017: KShs 86,388,000) was recognised as provision for expected credit losses on trade receivables

Ageing analysis for other receivables:

	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Less than 60 days (neither past due nor impaired)	54,483	38,489	22,641	16,049
61 days to 90 days	2,514	1,526	1,662	1,028
Over 90 days	90,742	88,496	26,029	47,117
	147,739	128,511	50,332	64,194
Impaired	-	-	-	-
Net	147,739	128,511	50,332	64,194

Notes to the financial statements for the year ended 31 December 2018 (continued)

8. TRADE AND OTHER RECEIVABLES (continued)

The increase in Group other receivables is mainly due to the increase in receivable from Akzo Nobel SA by KShs 25 million. Staff loans also increased in the period by KShs 10 million. The decrease in company other receivables is mainly due to the decrease is deposits held by service providers by KShs 20 million to KShs 10 million in 2018 while staff loans increased by KShs 6 million to KShs 19million in 2018

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	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Receivables from related companies:				
Crown Paints and Building Products Limited	540,123	559,607	540,123	559,607
Regal Paints Uganda Limited	-	-	137,089	379,837
Crown Paints Allied Industries Limited	-	-	2,228	960
Crown Paints Rwanda Limited	-	-	14,570	172,620
Crown Paints Tanzania Limited	-	-	160,958	355,733
	540,123	559,607	854,968	1,468,757
Provision for bad debts	(444,180)	-	(738,040)	-
	95,943	559,607	116,928	1,468,757

As at 31 December 2018, the Group's related party receivables with initial value of KShs 444,180,000 (2017: KShs Nil) were fully provided for. The Company's related party receivables with initial value of KShs 738,040,000 (2017: KShs Nil) were fully provided for.

The significant decrease in company related party balances is mainly due to the capitalization in the period of KShs 908 million which was owing from the loss making subsidiaries as at 31 December 2017. Group related party balances reduced mainly due to payments of the amounts owing amounting to KShs 41 million in the period. In 2018, KShs 444,180,000 (2017: KShs Nil) for the Group and KShs 738,040,000 (2017: KShs Nil) was recognised as provision for expected credit losses on related party receivables

Notes to the financial statements for the year ended 31 December 2018 (continued)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

Related party receivables are carried net of expected credit losses (ECLs)/impairment. The movement in the expected credit losses/impairment is as set out below.

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
At the beginning of the year	-	-	-	-
Adjustment on initial application of IFRS 9	473,251	-	473,251	-
Restated balance	473,251	-	473,251	-
Provision for expected credit losses (Note 23)	14,345	-	308,205	-
Recoveries during the year (Note 21)	(43,416)	-	(43,416)	-
	444,180	-	738,040	-
Ageing analysis				
Less than 60 days (neither past due nor impaired)	77,916	71,372	197,982	175,671
61 days to 90 days	3,891	5,108	23,220	65,796
Over 90 days	458,316	483,127	633,766	1,227,290
	540,123	559,607	854,968	1,468,757
Impaired	(444,180)	-	(738,040)	-
Neither past due nor impaired	95,943	559,607	116,928	1,468,757
(ii) Payables to related companies:				
Crown Paints Allied Industries Limited	-	-	3,541	9,361
Daxian Limited	223,137	141,339	223,137	141,339
Regal Paints Uganda Limited	-	-	37,526	2,009
Crown Paints Tanzania Limited	-	-	12,005	-
Crown Paints & Building Products	20,091	6,448	18,064	4,313
	243,228	147,787	294,273	157,022

Notes to the financial statements for the year ended 31 December 2018 (continued)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	2,483	997
Crown Paints Rwanda Limited	-	-	71,028	38,270
Regal Paints Uganda Limited	-	-	608,770	250,762
Crown Paints Tanzania Limited	-	-	211,379	235,723
Crown Paints and Building Products Limited	-	80	-	80
Purchase of goods:				
Crown Paints Allied Industries Limited	-	-	36,193	37,031
Crown Paints Tanzania Limited	587	1,021	12,403	1,639
Crown Paints Rwanda Limited	6,400	755	4,377	9,419
Services rendered:				
Daxian Limited	102,248	86,857	102,248	86,857
Crown Paints and Building Products Limited	-	32,198	-	32,198

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

(iv) Key management personnel compensation

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Short term employee benefits	218,994	166,616	218,994	166,616
Defined contribution plan	5,124	8,677	5,124	8,677
	224,118	175,293	224,118	175,293
(v) Directors' remuneration				
Fees for services as Directors	7,667	8,213	7,667	8,213
Other emoluments (included in key management personnel compensation above)	132,300	129,695	132,300	129,695
	139,967	137,908	139,967	137,908
Loans to related parties				
• Key management	-	625	-	625
• Crown paints & building Products	65,152	53,418	65,152	53,418
Movement in loans to Crown Paints & Building Products:				
At beginning of the year	53,418	40,540	53,418	40,540
Loans issued during the year	690,213	628,145	690,213	628,145
Repayments made during the year	(678,479)	(615,267)	(678,479)	(615,267)
As at 31 December	65,152	53,418	65,152	53,418

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Notes to the financial statements for the year ended 31 December 2018 (continued)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(vi) Short term note due to related parties

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Crown Paints & Building Products Limited	-	293	-	293
Directors	164,085	157,828	164,085	157,828
	164,085	158,121	164,085	158,121

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 8% 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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

10. TAXATION

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(122,288)	(126,877)	(104,978)	(112,868)
Charge for the year	160,429	149,252	158,055	147,599
Paid during the year	(81,885)	(144,663)	(74,795)	(139,709)
Current tax recoverable	(43,744)	(122,288)	(21,718)	(104,978)
The amount has been presented in the statement of financial position as follows;				
Current tax payable	196	296	-	-
Current tax recoverable	(43,940)	(122,584)	(21,718)	(104,978)
Net amount	(43,744)	(122,288)	(21,718)	(104,978)
PROFIT OR LOSS				
Current tax at 30 % on the taxable profit for the year	160,429	149,252	158,055	147,599
Deferred tax expense/(credit) (note 14)	51,693	25,583	51,693	25,583
	212,122	174,835	209,748	173,182
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	395,935	398,129	377,508	506,215
Tax at applicable rate of 30%	118,781	119,439	113,252	151,865
Reversal of provision for amount owing from subsidiaries	(88,158)	-	-	-
Tax effect on items not eligible for tax purposes	96,496	18,821	96,496	18,821
Minimum tax liability- Tanzania	2,374	1,653	-	-
Unrecognised deferred tax assets on tax losses in subsidiaries	82,629	32,426	-	-
Over provision on deferred tax in previous year	-	2,496	-	2,496
	212,122	174,835	209,748	173,182

Notes to the financial statements for the year ended 31 December 2018 (continued)

10. TAXATION (continued)

Tax effect on items not eligible for tax purposes can be summarised as follows:

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Depreciation	6,011	7,486	6,011	7,486
Amortization on leasehold land	80	80	80	80
Staff benevolent costs	404	308	404	308
Directors' expenses	1,392	1,277	1,392	1,277
Bad debts written off	1,165	2,582	1,165	2,582
Donations	124	106	124	106
Sponsorship	934	135	934	135
Fines & penalties	182	215	182	215
School fees	2,640	2,420	2,640	2,420
Corporate social responsibility	50	496	50	496
Pension scheme administration costs	792	845	792	845
Company staff program	266	-	266	-
Excess pension contribution	3,019	2,871	3,019	2,871
Provision for amounts owing from subsidiaries	79,437	-	79,437	-
	96,496	18,821	96,496	18,821

11. SHARE CAPITAL

	GROUP & COMPANY	
	2018 KShs'000	2017 KShs'000
Authorised:		
71,181,000 (2017: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905
Issued and fully paid:		
71,181,000 (2017: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905

12. RESERVES

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	81,229	101,091	121,605	141,467
Foreign currency translation reserve	86,675	95,968	-	-
Retained earnings	422,877	1,124,478	1,589,225	2,096,755
	670,955	1,401,711	1,791,004	2,318,396

Notes to the financial statements for the year ended 31 December 2018 (continued)

12. RESERVES (continued)

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

	GROUP & COMPANY	
	2018 KShs'000	2017 KShs'000
Dividend paid		
Final dividend for 2017 KShs. 0.60 per share (2016: 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 (2017: 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 2018 (continued)

14. DEFERRED TAX ASSET

Movements in deferred tax during the year were as follows:

Year ended 31 December 2018	Balance at 1 January KShs'000	Profit or loss KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Accelerated capital allowances	76,166	22,967	-	99,133
Unrealised exchange loss	(1,025)	(4,626)	-	(5,651)
Unrealised exchange gain	522	5,490	-	6,012
Revaluation reserve	48,974	-	(5,959)	43,016
Allowance for doubtful debts – third parties	(79,302)	7,186	(79,350)	(151,466)
Provisions for staff leave	(11,705)	1,596	-	(10,109)
Provisions for legal cases	-	(2,375)	-	(2,375)
Provision for bonus accrual	(11,571)	11,571	-	-
Provision for obsolete inventories	(17,344)	3,668	-	(13,676)
Provision for rebates	(6,216)	6,216	-	-
	(1,501)	51,693	(85,309)	(35,117)
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)

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting KShs 282,970,000 (2017: KShs 200,342,000) 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 943,234,000 (2017: KShs 667,805,000) 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 recognized amount to KShs 71,945,066 (2017: KShs 56,680,636).

In accordance with the Kenyan Income Tax Act, Crown Paints Allied Industries Limited 2010 tax loss of KShs. 20,525,372 are available for utilization until 31 December 2019 while 2018 tax loss of KShs. 11,193,279 are available for utilization until 31 December 2028.

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
c) 2018 tax loss amounting to KShs. 23,289,326 expires on 31 December 2023

Notes to the financial statements for the year ended 31 December 2018 (continued)

15. BANK OVERDRAFT

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Bank overdraft	31,872	328,898	31,872	328,759

The bank overdraft facility is to the extent of: Kenya Commercial Bank Limited (KCB) - KShs 400 million and USD 300,000 and Commercial Bank of Africa (CBA) - KShs 110 million and USD 1,000,000 letters of guarantee/ letters of credit/ import bill financing. The KCB and CBA facilities are secured by debenture of KShs 571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and LR 209/4479 along Dar es Salam road.

The weighted average interest rate on the overdraft at year-end was 13% (2017: 14%), letters of guarantee- 9.25%. The bank overdrafts are reviewed annually and are payable on demand.

16. BANK LOANS

	GROUP 2018 KShs'000	GROUP 2017 KShs'000	COMPANY 2018 KShs'000	COMPANY 2017 KShs'000
Long term loans:				
KCB Loan-Kenya	325,319	302,439	325,319	302,439
KCB Loan – Uganda	15,825	23,850	-	-
I&M Loan - Uganda	80,288	-	-	-
I&M Loan - Tanzania	36,505	-	-	-
Akzo Nobel Loan - Tanzania	136,380	-	-	-
Akzo Nobel Loan - Rwanda	41,616	-	-	-
	635,933	326,289	325,319	302,439
Short term borrowings:				
CBA IPF facility	209,717	136,051	209,717	136,051
KCB IPF facility	365,644	268,935	365,644	268,935
	575,361	404,986	575,361	404,986
Total bank loans	1,211,294	731,275	900,680	707,425
Due within 1 year	606,534	435,168	598,168	428,457
Due after 1 year	604,760	296,107	302,512	278,968
Movements during the year:				
At 1 January	731,275	714,592	707,425	714,592
Additional loan received	2,680,305	1,512,169	2,384,945	1,487,107
Accrued interest	-	4,799	-	3,487
Loan repayments	(2,199,423)	(1,498,078)	(2,191,690)	(1,495,554)
Foreign exchange difference	(863)	(2,207)	-	(2,207)
At 31 December	1,211,294	731,275	900,680	707,425

Notes to the financial statements for the year ended 31 December 2018 (continued)

16. BANK LOANS (continued)

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 13% (2017: 14%). The amount due in 1 year also includes the current portion of the long term loans due within 12 months amounting KShs 302.5 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 central bank rate plus 4% and the facility shall be repaid in 36 months consecutive monthly instalments inclusive of interest and other charges.

The loan from I&M Bank Limited (Uganda) is a letter of credit cum term loan for the purchase of machinery required in the ordinary course of business. The interest on the term loan is three months USD LIBOR rate plus 6.66611% and the facility shall be repaid in 60 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 24 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of amount of USD 3,099,000 over all the assets of Regal Paints Uganda Limited and corporate guarantee and indemnity of Crown Paints Kenya Plc for USD 3,099,000.

The loan from I&M Bank Tanzania Limited is an import and asset based financing for the purchase of machinery. The interest on the term loan is three months USD LIBOR rate plus 6.66611% and the facility shall be repaid in 60 months consecutive monthly instalments inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of USD 2,564,787 over all the assets of Crown Paints Tanzania Limited and corporate guarantee of Crown Paints Kenya Plc for USD 2,564,787.

The loans from AkzoNobel South Africa (pty) Limited is a working capital financing for the sadolin business in which Crown Paints Rwanda Limited and Crown Paints Tanzania Limited are acting as agents. The loan is repayable in 120 workings days subsequent to the termination of the tolling contract. The loans are guaranteed by Crown Paints and Building Products Kenya Limited, a related party.

Notes to the financial statements for the year ended 31 December 2018 (continued)

17. SHORT TERM NOTES

	GROUP & COMPANY	
	2018	2017
	KShs'000	KShs'000
Amounts falling due within one year	1,105,756	757,379
Movement in the year:		
At 1 January	757,379	507,403
Additional loan received	424,652	2,856,916
Accrued interest	-	18,614
Loan repayments	(76,275)	(2,625,554)
At 31 December	1,105,756	757,379

The short-term notes are non-secured facilities from private lenders and related party 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.

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Amounts falling due within one year				
Trade payables	1,575,435	1,858,139	1,350,867	1,581,355
Other payables	123,276	126,716	100,787	107,629
Accruals	149,861	163,501	121,280	137,352
	1,848,572	2,148,356	1,572,934	1,826,336

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 FROM CONTRACTS WITH CUSTOMERS

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Following revenue arose from sale of goods:				
Decorative paints	6,688,056	5,918,699	6,500,888	5,605,117
Industrial paints	1,008,434	898,510	917,367	794,817
Automotive paints	410,187	374,022	236,728	247,860
Adhesives	209,233	160,095	182,724	143,205
	8,315,910	7,351,326	7,837,707	6,790,999

Notes to the financial statements for the year ended 31 December 2018 (continued)

20. COST OF SALES

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Raw materials	4,799,222	4,188,022	4,602,915	3,949,490
Salaries and wages	260,783	172,188	218,580	160,843
Depreciation on plant and machinery	41,737	32,468	30,001	27,441
Machinery repairs and maintenance	50,757	72,449	46,875	70,127
Fuel, water and electricity	40,236	21,233	19,838	16,143
Safety & environmental costs	40,881	31,547	40,562	31,459
Technical consultancy	23,691	17,548	23,691	17,548
Transport costs	6,087	7,654	5,927	7,635
Factory rent	8,869	3,286	-	-
Others	12,361	6,355	4,116	3,922
	5,284,624	4,552,750	4,992,505	4,284,608

21. OTHER INCOME

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	349	40	-	-
Interest income	2,270	1,103	1,122	1,103
Miscellaneous income	132,053	162,822	128,147	146,211
Operating lease revenue	8,220	17,063	7,066	13,344
Doubtful debts written back-third party (note 8)	168,061	68,737	156,405	68,737
Doubtful debts written back–relate party (note 9)	43,416	-	43,416	-
Decrease in provision for leave	790	2,629	681	2,629
Reversal of inventory write down (note 7)	41,776	39,821	40,744	39,821
Foreign exchange gain	115,929	35,097	53,563	9,588
Surcharge sales	35,514	13,077	35,515	13,077
Tolling fees	107,001	46,419	-	-
	655,379	386,808	466,659	294,510

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Notes to the financial statements for the year ended 31 December 2018 (continued)

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Staff costs (Note 25)	1,059,621	987,085	842,215	812,866
Depreciation on property and equipment	100,931	86,488	74,841	61,266
Auditors' remuneration	11,087	10,953	6,700	6,200
Directors' emoluments:				
• As Directors	7,667	8,213	7,667	8,213
• As Executives	127,660	129,695	127,660	129,695
Legal and professional fees	42,660	42,631	39,612	27,499
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	14,893	14,830	12,398	12,790
Insurance	47,348	45,910	39,776	40,077
Loss on disposal of property and equipment	1,370	2,573	1,370	2,573
Foreign exchange loss	91,314	60,282	39,025	37,900
Office expenses	62,206	77,319	45,561	51,221
Consultancy fees	33,997	26,117	20,768	26,004
Computer costs	53,563	45,877	48,801	43,316
Travel	15,509	12,599	1,668	2,546
Maintenance, subscriptions and donations	23,290	23,026	16,864	16,332
Bank charges	34,892	25,503	28,186	22,109
Others	35,772	7,179	30,339	5,819
	1,764,045	1,606,545	1,383,716	1,306,691

23. SELLING AND DISTRIBUTION EXPENSES

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Transport	305,867	223,586	210,278	170,466
Advertising and promotion	459,173	349,706	415,871	299,109
Inventory write-downs (note 7)	41,600	38,938	28,519	37,065
Allowance for bad debts-third parties (note 8)	177,779	114,856	132,452	86,388
Allowance for bad debts-related parties (note 9)	14,345	-	308,205	-
Bad debts written off during the year	5,903	17,733	3,908	8,678
Depot expenses	237,201	217,208	181,120	168,147
Others	9,753	9,481	9,580	9,368
	1,251,621	971,508	1,289,933	779,221

24. FINANCE COSTS

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Interest on loans and overdraft	149,442	124,256	135,082	123,828
Interest on short term notes	125,622	84,946	125,622	84,946
	275,064	209,202	260,704	208,774

Notes to the financial statements for the year ended 31 December 2018 (continued)

25. STAFF COSTS

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Salaries and wages	853,107	797,827	677,466	655,174
Defined contribution plan	11,848	10,775	2,639	2,815
Medical benefits	8,456	10,901	2,736	4,405
Insurance	78,675	72,567	73,798	69,740
Staff general costs	77,020	73,166	63,958	64,045
Training and development	30,515	21,849	21,618	16,687
Staff costs (Note 22)	1,059,621	987,085	842,215	812,866
Salaries and wages (Note 20)	260,783	172,188	218,580	160,843
Total staff costs	1,320,404	1,159,273	1,060,795	973,709

26. PROFIT BEFORE TAX

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
The profit before tax is stated after charging: -				
Depreciation of property, plant & equipment (Note 3)	142,668	118,956	104,842	88,709
Amortisation of prepaid leases on land (Note 5)	265	265	265	265
Amortisation of intangible assets (Note 4)	14,893	14,830	12,398	12,790
Directors' emoluments:				
As Directors (Note 22)	7,667	8,213	7,667	8,213
As Executives (Note 22)	127,660	129,695	127,660	129,695
Auditors' remuneration (Note 22)	11,087	10,953	6,700	6,200
Loss on disposal of property, plant and equipment (Note 22)	1,370	2,573	1,370	2,573
Finance costs (Note 24)	275,064	209,202	260,704	208,774
Foreign exchange loss (Note 22)	91,314	60,282	39,025	37,900
And after crediting: -				
Interest income (Note 21)	2,270	1,103	1,122	1,103
Operating lease income (Note 21)	8,220	17,063	7,066	13,344
Gain on disposal of property, plant and equipment (Note 21)	349	40	-	-
Foreign exchange gain (Note 21)	115,929	35,097	53,563	9,588

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Notes to the financial statements for the year ended 31 December 2018 (continued)

27. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Net profit attributable to ordinary shareholders (KShs'000)	183,813	223,294	167,760	333,033
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 dilutive potential shares as at 31 December 2018 and as at 31 December 2017.

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	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Cash and cash equivalents	364,136	214,222	279,355	127,346
Bank overdraft (Note 15)	(31,872)	(328,898)	(31,872)	(328,759)
	332,264	(114,676)	247,483	(201,413)

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 term of four years. 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	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Within 1 year	11,601	6,745	11,601	6,745
Within 5 years	53,154	-	53,154	-
	64,755	6,745	64,755	6,745

Notes to the financial statements for the year ended 31 December 2018 (continued)

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

b) Contingent liabilities

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 on pending legal cases with medium probability of incurring is KShs 15.8 million out of which KShs 7,915,000 has been provided for. (2017: Nil)

c) The Group's capital commitments as at year end were nil (2017: Nil).

d) Bank facilities

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Letters of credit	11,185	9,422	11,185	9,422
Avalised bills	66,388	-	66,388	-
Documentary collections	128,646	-	128,646	-
Guarantees given by bankers	2,733	3,618	2,733	3,618
	208,952	13,040	208,952	13,040

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 & 16 above and are issued in the normal course of business.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Financial assets measured at amortised cost				
Cash and cash equivalents	364,136	214,222	279,355	127,346
Trade and other receivables	1,011,602	1,536,670	788,199	1,038,608
Amounts due from related companies	95,943	559,607	116,928	1,468,757
	1,471,681	2,310,499	1,184,482	2,634,711

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	GROUP		COMPANY	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Financial liabilities measured at amortised cost				
Bank overdraft	31,872	328,898	31,872	328,759
Bank loans	1,211,294	731,275	900,680	707,425
Short term notes	1,105,756	757,379	1,105,756	757,379
Amounts due to related companies	243,228	147,787	294,293	157,022
Trade and other payables	1,743,589	2,025,385	1,493,478	1,720,889
	4,335,739	3,990,724	3,826,079	3,671,474

The amounts in the table above are the carrying amounts of the financial instruments at the reporting date. All the financial assets are classified financial assets measured at amortized cost (2017- classified as loans and receivables). All financial liabilities are classified financial liabilities measured at amortized cost.

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 reviews and agrees 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 group 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 central bank rate plus 4% and the central bank rate does not vary materially. Interest on the Company's loans denominated in Kenya shillings is charged at central bank rate plus 4% prevailing from time to time , while those denominated in USD interest is charged at the bank's base USD rate+0.4%). Currently, the CBA and KCB KShs base lending rates are 13%. CBA USD base lending rate is 9.25% and KCB 9.875%. The interest on the short-term note is at 91 day treasury bills interest rate plus 1.5%.

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2018	Increase by 2%	34,246	23,972	34,078	23,855
	Decrease by 2%	(34,246)	(23,972)	(34,078)	(23,855)
2017	Increase by 2%	23,851	16,696	23,717	16,602
	Decrease by 2%	(23,851)	(16,696)	(23,717)	(16,602)

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off after all efforts have been exhausted.

The amounts that best represent the Group's and company's maximum exposure to credit risk as at 31 December 2018 were as follows:

GROUP

As at 31 December 2018	Neither past due nor impaired	Past due but not impaired			
	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	950,702	131,081	688,539	(814,094)	956,228
Other receivables	54,483	2,514	90,742	-	147,739
Amount due from related companies	77,916	3,891	458,316	(444,180)	95,943
Bank balances and cash	363,129	-	-	-	363,129
	1,446,230	137,486	1,237,597	(1,258,274)	1,563,039

COMPANY

As at 31 December 2018	Neither past due nor impaired	Past due but not impaired			
	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	814,638	74,066	373,940	(504,893)	757,751
Other receivables	22,641	1,662	26,029	-	50,332
Amount due from related companies	197,982	23,220	633,766	(738,040)	116,928
Bank balances and cash	278,795	-	-	-	278,795
	1,314,056	98,948	1,033,735	(1,242,933)	1,203,806

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

GROUP:

As at 31 December 2017	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	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

COMPANY:

As at 31 December 2017	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	758,998	50,273	450,184	(264,345)	995,110
Other receivables	16,049	1,028	47,117	-	64,194
Amount due from related parties	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 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 2018 (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	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Assets in foreign currencies				
Trade and other receivables	3,841	44,194	1,999	2,239
Cash and bank balances	18,147	22,297	8,871	-
Foreign currency assets	21,988	66,491	10,870	2,239
Liabilities in foreign currencies				
Bank overdrafts	(31,872)	(17,799)	(31,872)	(17,799)
Payables	(884,690)	(959,339)	(789,426)	(817,021)
Bank loans	(870,150)	(136,051)	(575,361)	(136,051)
Foreign currency liabilities	(1,786,712)	(1,113,189)	(1,396,659)	(970,871)
Net foreign currency liability position	(1,764,724)	(1,046,698)	(1,385,789)	(968,632)

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).

USD		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2018	Increase in US$ by 4%	(70,589)	(49,412)	(55,432)	(38,802)
	Decrease in US$ by 4%	70,589	49,412	55,432	38,802
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

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Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

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 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 2018							
Financial liabilities							
Bank overdraft	(31,872)	-	-	-	-		(31,872)
Bank loans	(84,977)	(146,075)	(189,510)	(80,994)	(104,979)	(684,055)	(1,290,590)
Short term notes	(88,910)	(411,390)	(284,069)	(199,057)	(122,329)	-	(1,105,756)
Trade payables	(742,034)	(177,640)	(211,171)	(145,688)	(298,903)	-	(1,575,435)
Other payables	(13,365)	(1,723)	(3,152)	(4,171)	(30,773)	-	(53,184)
Accruals	(114,971)	-	-	-	-	-	(114,971)
Amounts due to related companies	(105,672)	(6,121)	(76,899)	(8,288)	(46,248)	-	(243,228)
Total financial liabilities	(1,181,801)	(742,949)	(764,801)	(434,110)	(603,232)	(684,055)	(4,415,036)

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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 loan	(41,357)	(181,167)	(128,147)	(16,183)	(116,097)	(334,601)	(817,552)
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)	(334,601)	(4,076,998)

COMPANY

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2018							
Financial liabilities							
Bank overdraft	(31,872)	-	-	-	-	-	(31,872)
Bank loans	(84,346)	(145,434)	(188,834)	(80,338)	(99,216)	(341,839)	(940,007)
Short term notes	(88,910)	(411,390)	(284,069)	(199,057)	(122,330)	-	(1,105,756)
Trade payables	(679,970)	(138,566)	(188,010)	(140,519)	(203,802)	-	(1,350,867)
Other payables	(7,298)	(1,723)	(3,152)	(4,171)	(30,773)	-	(47,117)
Accruals	(95,494)	-	-	-	-	-	(95,494)
Amounts due to related companies	(127,883)	(7,404)	(93,018)	(10,025)	(55,943)	-	(294,273)
Total financial liabilities	(1,115,774)	(704,517)	(757,083)	(434,110)	(512,064)	(341,839)	(3,865,386)

Notes to the financial statements for the year ended 31 December 2018 (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

COMPANY

	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2017							
Financial liabilities							
Bank overdraft	(328,759)	-	-	-	-	-	(328,759)
Bank loan	(41,357)	(179,963)	(121,684)	-	(116,097)	(315,234)	(774,335)
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)	(315,234)	(3,738,346)

Operational risk

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

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

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

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

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 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, amounts 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 2018 (continued)

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

GROUP	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2018				
Property, plant and equipment	-	-	1,155,239	1,155,239
LIABILITY				
Bank loans	-	(598,229)	-	(598,229)
31 December 2017				
Property, plant and equipment	-	-	1,085,656	1,085,656
LIABILITY				
Bank loans	-	(252,065)	-	(297,703)

COMPANY	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2018				
Assets				
Property, plant and equipment	-	-	1,155,239	1,155,239
LIABILITY				
Bank loans	-	(297,703)	-	(297,703)
31 December 2017				
Assets				
Property, plant and equipment	-	-	1,085,656	1,085,656
LIABILITY				
Bank loans	-	(228,949)	-	(228,949)

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

Notes to the financial statements for the year ended 31 December 2018 (continued)

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Reconciliation of level 3 assets

	2018 KShs 000	2017 KShs 000
At 1 January	1,085,656	1,063,812
Additions	176,649	93,808
Transfer from WIP	-	21,422
Disposals	(2,225)	(4,677)
Depreciation charge	(104,842)	(88,709)
At 31 December	1,155,238	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 years, net of 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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

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.

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.

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

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.

Segment information is as presented below.

31 December 2018 **Assets and Liabilities**	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Segment assets	5,821,256	34,907	(380,470)	5,475,693
Investment in subsidiary	1,789,285	-	(1,789,285)	-
Total assets	7,610,541	34,907	(2,169,755)	5,475,693
Segment liabilities	4,814,451	14,852	(380,470)	4,448,833

Other segment information	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Capital expenditure - property, plant and equipment and intangible assets	384,391	258	-	384,649
Depreciation and amortisation	157,668	158	-	157,826
Revenue				
Sales to external customers	8,106,678	209,232	-	8,315,910
Inter segment sales	627,198	36,780	(663,978)	-
Interest income	2,270	-	-	2,270
Other income	649,280	3,829	-	653,109
Interest expense	275,064	-	-	275,064
Results				
Operating results	401,073	(5,138)	-	395,935
Income tax expense	(212,122)	-	-	(212,122)
Profit for the year	188,951	(5,138)	-	183,813

Notes to the financial statements for the year ended 31 December 2018 (continued)

32. OPERATING SEGMENT INFORMATION (continued)

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	32,437	(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

Revenue from external customers

	2018 **KShs '000**	**2017** **KShs '000**
Kenya	7,289,243	6,030,392
Uganda	379,584	669,273
Tanzania	516,936	521,550
Burundi	-	5,493
Mozambique	5,274	4,702
Rwanda	124,873	107,188
Somali	-	12,130
South Sudan	-	109
DRC	-	489
Total revenue	8,315,910	7,351,326

The revenue information above is based on the locations of the customers.

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Notes to the financial statements for the year ended 31 December 2018 (continued)

32. OPERATING SEGMENT INFORMATION (continued)

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

	2018 KShs '000	2017 KShs '000
Kenya	1,227,383	1,154,968
Uganda	195,826	91,322
Tanzania	109,310	62,744
Rwanda	14,231	15,702
	1,546,750	1,324,736

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

33. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES

Crown Paints Kenya Plc

The company made a profit of KShs 168 million during the year ended 31 December 2018 (2017 - KShs 333 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs. 601 million (2017 – Current assets exceeded current liabilities by KShs. 917 million). In addition, the company's accumulated profits stood at KShs. 1.6 billion as at 31 December 2018 (2017- KShs 2.1 billion) while its total assets exceeded total liabilities by KShs 2.1 billion (2017: total assets exceeded total liabilities by - KShs. 2.7 million).

	2018 KShs 000	2017 KShs 000
Net current assets	(601,018)	916,952
Net assets	2,146,909	2,674,301
Profit for the year	167,760	333,033
Accumulated profit	1,589,225	2,096,755

The negative working capital position has been aggravated by the capitalization of amounts which were due from three subsidiaries totalling KShs 908,190,000, made up of KShs 379,837,000, KShs 355,732,000 and KShs 172,621,000 owing from Regal Paints Uganda Limited, Crown Paints Tanzania Limited and Crown Paints Rwanda Limited, respectively as at end of 31 December 2017, and by the accelerated credit losses from the receivables following adoption of IFRS 9.

Regal Paints Uganda Limited

The company incurred a loss of KShs 79 million during the year ended 31 December 2018 (2017 - KShs 1.8 million) and, as of that date, the company's current assets exceeded its current liability by KShs. 110 million (2017 – Current liability exceeded current assets by KShs. 78 million). In addition, the company's accumulated losses stood at KShs. 492 million as at 31 December 2018 (2017- KShs 361 million) while its total assets exceeded total liability by KShs 218 million (2017: total liabilities exceeded total assets by - KShs. 4 million).

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES (continued)

Crown Paints Tanzania Limited

The company incurred a loss of KShs 175 million during the year ended 31 December 2018 (2017 - KShs 77 million) and, as of that date, the company's current assets exceeded its current liability by KShs 142 million (2017- liabilities exceeded assets by KShs 72 million). In addition, the company's accumulated losses stood at KShs. 696 million as at 31 December 2018 (2017 - KShs. 411 million) while its total assets exceeded total liabilities by KShs 79 million (2017: total liabilities exceeded total assets by KShs.9.7 million).

Crown Paints Rwanda Limited

The company incurred a loss of KShs. 18.8 million during the year ended 31 December 2018 (2017- KShs. 32 million) and, as of that date, the company's current assets exceeded its current liabilities by KShs. 86 million (2017 – Current liability exceeded current assets by KShs. 62.6 million). In addition, the company's accumulated losses stood at KShs. 119 million as at 31 December 2018 (2017 - KShs. 53.9 million) while its total assets exceeded total liability by KShs 59 million (2017: total liabilities exceeded total assets by KShs. 46.9 million).

Crown Paints Allied Industries Limited

The company incurred a loss of KShs. 5 million during the year ended 31 December 2018 (2017- profit of KShs. 0.8 million) and, as of that date, the company's current assets exceeded its current liabilities by KShs. 18.7 million (2017-KShs. 24 million). However, the company's accumulated losses stood at KShs. 77 million (2017-KShs. 72 million) as at 31 December 2018 while its total assets exceeded total liabilities by KShs 20 million (2017- KShs 25.2 million).

	Regal Paints Uganda Limited	Crown Paints Tanzania Limited	Crown Paints Allied Industries Limited	Crown Paints Rwanda Limited	Total
	KShs 000	KShs 000	KShs 000	KShs 000	KShs 000
31 December 2018					
Loss before tax	(78,537)	(172,943)	(5,138)	(18,814)	(275,433)
Accumulated losses	(492,018)	(695,707)	(76,945)	(118,517)	(1,383,188)
Net current assets	110,020	142,261	18,706	85,922	356,909
Total net assets	218,099	78,686	20,055	58,537	375,377
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)

These conditions give rise to a material uncertainty which may cast significant doubt about the company's and group'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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

33. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES (continued)

The net current and total asset positions in the loss-making subsidiaries is attributed to the capitalization of an amount of KShs 908,190,000- outstanding as at 31 December 2017, made up of KShs 379,837,000, KShs 355,732,000 and KShs 172,621,000 owing from Regal Paints Uganda Limited, Crown Paints Tanzania Limited and Crown Paints Rwanda Limited, respectively.

As discussed in the preceding paragraph, the three 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 to 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. Thus, their authorisation for the guarantee by the parent company to the subsidiaries.

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

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 optimization 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 externally imposed capital requirements.

Notes to the financial statements for the year ended 31 December 2018 (continued)

34. CAPITAL RISK MANAGEMENT (continued)

	2018 KShs'000	2017 KShs'000
Share capital	355,905	355,905
Share premium	80,174	80,174
Retained earnings	422,877	1,124,478
Equity	858,956	1,560,557
Total borrowings	2,317,049	1,488,654
(Less) / add: cash and cash equivalents (Note 28)	(332,264)	114,676
Net debt	1,984,785	1,603,330
Total capital	2,843,741	3,163,205
Gearing ratio	70%	51%

35. EVENTS AFTER THE REPORTING PERIOD

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

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 Second Annual General Meeting of the Company to be held on 27 June 2019 and at any adjournment thereof.

Signed/Sealed this ____________ day of ____________________ 2019

Notes:

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

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

Notes

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