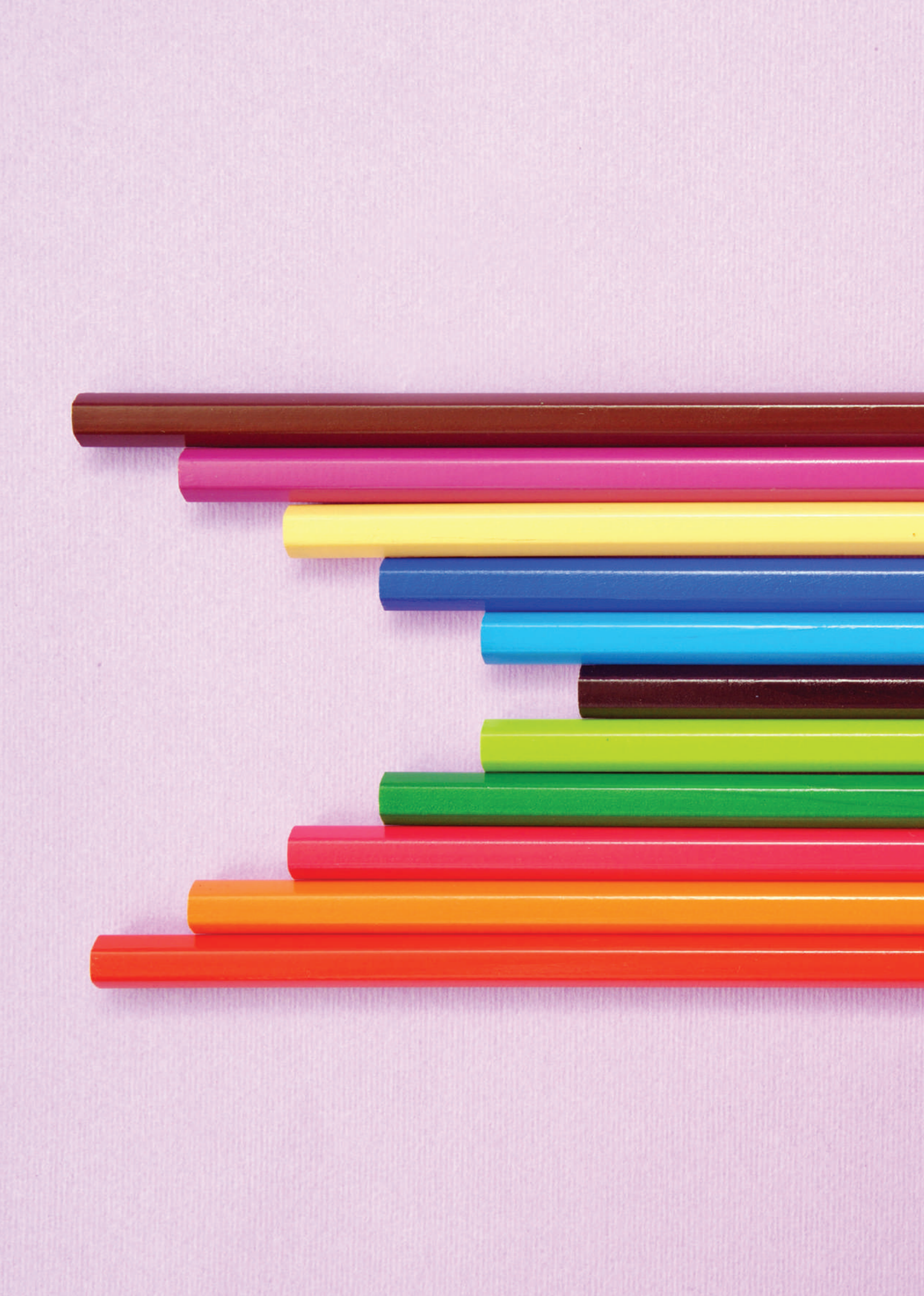
If you like it... Crown it!

20 ANNUAL
20 REPORT

Moving forward,
through the power of colour



“In the unprecedented period we are in, and the tough economic times, we are choosing to move forward for our customers, our stakeholders, and the nation. We aim to keep transforming lifestyles with innovative solutions and, care for the communities we operate in.”

crown

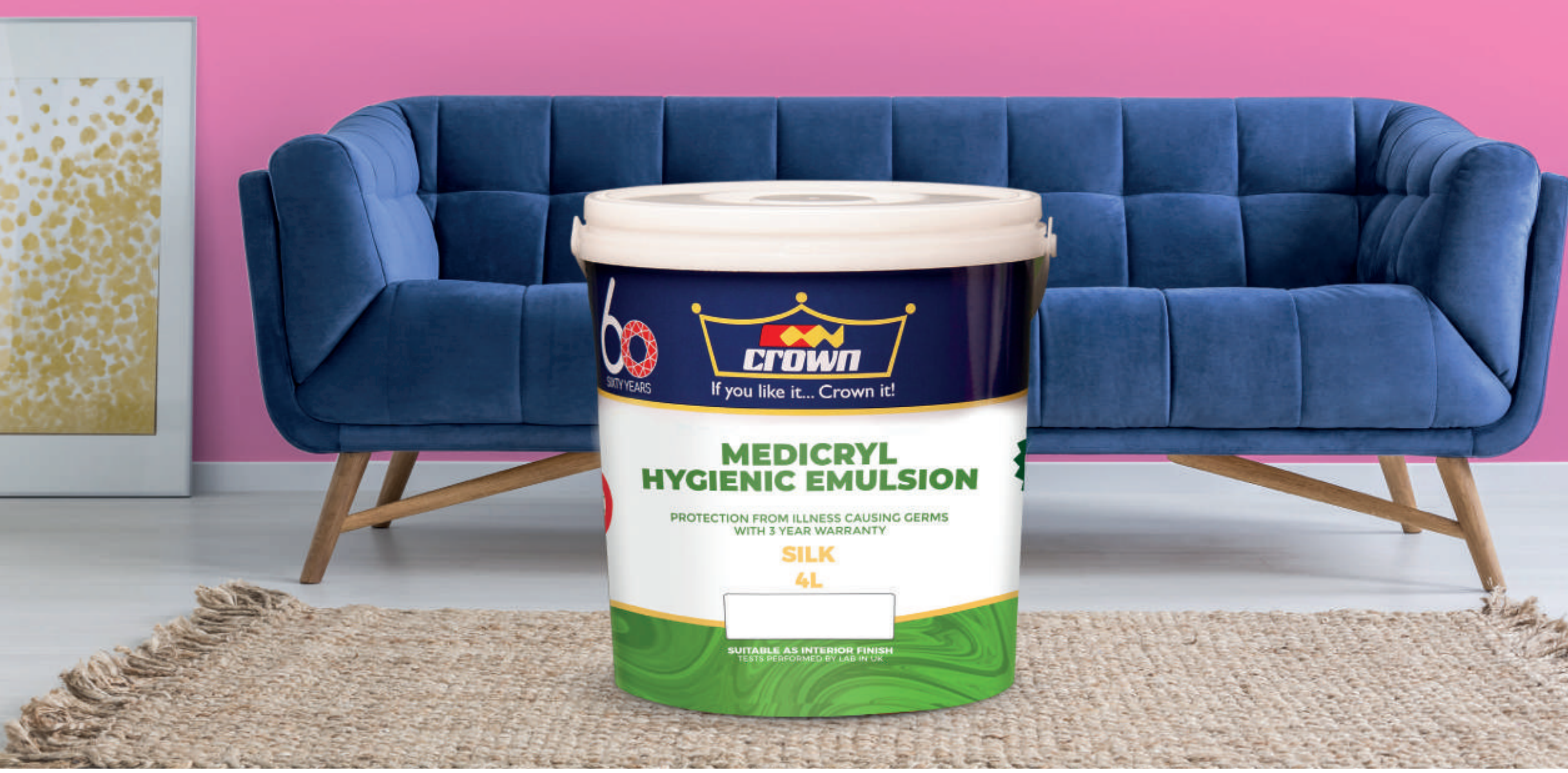
If you like it... Crown it!

OBTAIN ULTIMATE GERM DEFENSE

WITH THE BEST ANTI-MICROBIAL PAINT IN THE MARKET

AVAILABLE IN SILK & MATT FINISH IN

1L 4L 20L



0709 887 000

Visit your nearest showroom or dealer countrywide

CrownPaintsPLC

www.crownpaints.co.ke

TABLE OF

CONTENTS

06 Notice of the Annual General Meeting

09 Share Register Periodic

12 Chairman's Statement

14 Board of Directors

16 Group Chief Executive Officer Statement

18 Corporate Social Responsibility

21 Corporate Governance

24 Corporate Information

25 Report of the Director's

29 Statement of Directors' Responsibilities

30 Directors' Remuneration Report

33 Report of the Independent Auditors

37-115

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Company Statement of Financial Position
- Company Statement of Profit or Loss and Other Comprehensive Income
- Company Statement of Changes in Equity
- Company Statement of Cash Flows
- Notes to the Financial Statements

PROXY FORM

Notice of the Annual General Meeting

Crown Paints Kenya PLC
(the Company)

Notice of the 64th Annual General Meeting to the shareholders of Crown Paints Kenya PLC

Due to the ongoing COVID-19 global pandemic and the resultant directives issued by the Government of Kenya under the Public Health (Prevention, Control and Suppression of COVID-19) Rules, 2020 which restrict gatherings and congregations of persons, including the normal method of holding General meetings by congregations of Shareholders in person at a single venue and further in accordance with the provisions of the Companies Act, No. 17 of 2015 as amended by the Business Laws (Amendment) (No. 2) Act, 2021, NOTICE IS HEREBY GIVEN in accordance, with Article 77 of the Company's Articles of Association that the 64th Annual General Meeting of the Company will be held virtually at 11.00 am on Wednesday, 11 August 2021 to conduct the business set out below:

All resolutions will be conducted by way of a Poll.

As ordinary business to consider and, if thought fit, pass the following ordinary resolutions:

1. To adopt the audited financial statements for the year ended 31st December 2020 together with the Directors' and Auditors' Reports thereon.

2. To approve the Directors' Remuneration Report and the remuneration paid to the Directors' for the year ended 31st December 2020 and to authorise Directors to fix the remuneration of the Non-Executive Directors.

3. To re-elect the following directors:

   a. in accordance with Article 98 of the Company's Articles of Association, Ms. Alice Owuor having been appointed a Director during the year retires and being eligible, offers herself for re-election.
   b. in accordance with Article 98 of the Company's Articles of Association, Mr. Nicholas Kathiari having been appointed a Director during the year retires and being eligible, offers himself for re-election.
   c. Mr Stephen Oundo retires by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for re-election.
   d. 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 re-elected individually to continue serving as members of the Committee:
      i) Mr Nicholas Kathiari
      ii) Mr Stephen Oundo
      iii) Ms Alice Owuor

4. To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31st December 2021 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2021.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 12th July 2021

Notes

1. Shareholders wishing to participate in the meeting should register for the AGM by dialling USSD short code number *384*041# or via a link to the AGM Platform and following the various registration prompts. In order to complete the registration process, shareholders will need to have their ID/ Passport Numbers which were used to purchase their shares at hand. For assistance shareholders should dial the following helpline number+254 20 7608216 from 8:00 a.m. to 4:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email digital@candrgroup.co.ke.

2. Registration for the AGM shall open on 27th July at 8.00 am and will close on 10th August 2021 at 12.00 noon. Shareholders will not be able to register after 10th August 2021 at 12.00 noon.

3. Shareholders wishing to raise any questions for the AGM may do so by:

   a. Sending their written questions by email to digital@candrgroup.co.ke or
   b. Dialling the USSD code *384*041# and selecting the option (ask Question) on the prompts or
   c. Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM" Select "Q&A" option tab and submit questions in text box provided; or
   d. To the extent possible, physically delivering their written questions with a return physical address or email address to the offices of Custody and Registrars Services Ltd, Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi. Shareholders sending questions by email or delivering to C&R Group must provide their full details (full names, Shares Account Number//CDSC Account Number) when submitting their questions and clarifications. Also attach a copy of your ID/Passport.

4. Shareholders wishing to vote may do so by:

    a. Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM"; Select "Voting" option tab and vote; or
    b. Dialling the USSD platform*384*041#; Use the menu prompts to Select the menu option for "Voting" and follow the various prompts regarding the voting process.

5. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi so as to be received not later than Monday, 9th August 2021 at 11.00 a.m. When nominating a proxy, the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Tuesday, 10th August 2021 to allow time to address any issues.

6. The Virtual AGM will be accessible to shareholders and proxies who have duly registered and received their log-in credentials. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers two hours before the AGM, reminding duly registered shareholders and proxies that the AGM will begin in two hours' time and providing the link to watch the live stream.

7. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD *384*041# or on the AGM Platform.

8. A poll shall be conducted for all the resolutions put forward in the notice.

9. Results of the AGM shall be published within 24 hours following conclusion of the AGM.

10. A copy of this notice, the proxy form, the Integrated Annual Report may be viewed from the company's website at www.crownpaints.co.ke.

11. The preferred method of paying dividends which are below Kshs 140,000.00 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment can opt to receive future dividends by dialling *483*038# or contacting the Share Registrar, Custody & Registrars Services Limited.

12. All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date. Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd
IKM Place, Tower B, 1st Floor,
5th Ngong Avenue, Nairobi.
Tel: Mobile: +254 20 7608216,
Email: info@candrgroup.co.ke

If you like it... Crown it!

CROWN PAINTS KENYA PLC SHARE REGISTER PERIODIC REPORT FOR MAY 2021

Top 30 Shareholders

Name	Shares_Held	%
CROWN PAINTS AND BUILDING PRODUCTS LTD	34,462,365	48.42%
BEAUMONT PROPERTIES LIMITED	15,959,737	22.42%
BARCLAY HOLDINGS LIMITED	9,702,000	13.63%
STANBIC NOMINEES LTD A/C NR1030823	1,140,000	1.60%
PATEL, MAHENDRA DAHYABHAI	672,060	0.94%
KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH	303,600	0.43%
DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	280,188	0.39%
SHAH, MINESH MULCHAND	275,490	0.39%
OGANGO, JOHN OKUNA	245,100	0.34%
SHAH, SAVITABEN VELJI RAICHAND	220,275	0.31%
ZAVERCHAND PUNJA WAREHOUSES LTD	211,200	0.30%
SHAH, BIJAL MULCHAND	127,312	0.18%
SHAH, NISHITKUMAR RAMNIKLAL	114,900	0.16%
THAWER, ABDULRASUL ISMAIL	110,550	0.16%
CFCFS NOMINEES LIMITED A/C HRJC	102,700	0.14%
SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY	99,000	0.14%
SHAH, PRAFULKUMAR HEMRAJ	98,640	0.14%
SHAZIQUE ENTERPRISES LIMITED	94,710	0.13%
PARESH P UPADHYAY & HASMUKH A	89,100	0.13%
SURESHCHANDRA RAICHAND	83,127	0.12%
SHAH, SAROJBEN PRAFULKUMAR	82,020	0.12%
SHAH, SANDIP VELJI	78,621	0.11%
RAJNIKANT NATHOOBHAI	77,220	0.11%
RAYANI, SHAMSUDIN J. A. RAYANI & ROSINAKHANU S.	74,568	0.10%
ASSI, SANTOKH SINGH	69,630	0.10%
MUCHINYI, SILVESTER	69,600	0.10%
RUPAM GULABSI	66,000	0.09%
JOHN WAHOME	65,505	0.09%
PATEL, RAMABEN SUMANTRAI PURSOTTAM	64,000	0.09%
ALI MOHAMED	63,030	0.09%
Total Top 30 Shareholders	65,102,248	91.46%
Unselected 2583 Shareholders	6,078,752	8.54%
Issued Shares	71,181,000	
Total number of Shareholders	2,613	
Number of Shareholderss at CDSC	1,875	
Number of Share Held at CDSC	58,267,905	

CROWN PAINTS KENYA PLC SHARE REGISTER PERIODIC REPORT FOR MAY 2021

Top 30 Shareholders (Continued)

CROWN PAINTS KENYA PLC SHARE REGISTER		
PERIODIC REPORT FOR MAY 2021		
DEMAT ANALYSIS		
	Shares	%
CDSC	58,267,905	81.86%
CERTIFICATED	12,913,095	18.14%
Total	71,181,000	100%
Analysis by Domicile		
DOMICILE	SHARES	%
FOREIGN COMPANIES	26,840,137	37.71%
FOREIGN INDIVIDUALS	321,678	0.45%
LOCAL COMPANIES	35,980,377	50.55%
LOCAL INDIVIDUALS	8,038,808	11.29%
TOTAL	71,181,000	100%

crown

If you like it... Crown it!

TRIPLE WORLD CLASS DISTINCTION

A FIRST IN EAST AFRICA

Crown Paints Kenya PLC; the leading paint company in Kenya is proud to announce it has received the triple ISO certification: Integrated Management System (IMS) certifications.

ISO 9001:2015
BUREAU VERITAS
Certification
BUREAU VERITAS 1828
UKAS MANAGEMENT SYSTEMS
0008

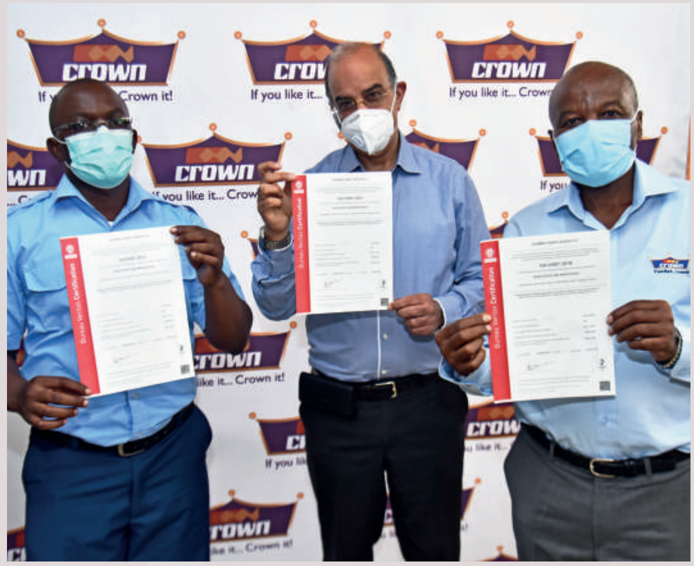
ISO 14001:2015
BUREAU VERITAS
Certification
BUREAU VERITAS 1828
UKAS MANAGEMENT SYSTEMS
0008

ISO 45001:2018
BUREAU VERITAS
Certification
BUREAU VERITAS 1828
UKAS MANAGEMENT SYSTEMS
0008

Our record over the years continues to reinforce our commitment to the highest possible standards. We celebrate yet another first in East Africa!

0709 887 000 CrownPaintsPLC www.crownpaints.co.ke

Crown Paints receives Triple ISO Certification



From left: Crown Paints, SHEQ Coordinator Jesse Jackson, Crown Paints Group Vice-Chairman Hussein Ramji and Crown Paints Group Finance Director Patrick Mwati pose for a photo during the handover of ISO IMS certifications.

Crown Paints Kenya PLC; the leading paint company in Kenya has proudly received the triple ISO certification: Integrated Management System (IMS) Certifications

- ISO 9001:2015 Quality Management system
- ISO 14001:2015 Environment Management system
- ISO 45001:2018 Occupational Health & Safety Management system

ISO certification is one of the most rigorous and well-regarded standards in the world. Team Crown Paints Kenya PLC were audited by Bureau Veritas, and were presented with their certificates on 12th August 2020.

These internationally recognized standards ensures their products and services meet the needs of customers through an effective Integrated Management System (IMS).

ISO (International Standards Organization) defines parameters for compliance with the highest standards of quality, safety, environmental responsibility, and other characteristics of world-class organizations' operations across their materials, products, processes, and services.

Crown Paints Kenya PLC is the first paints company to achieve this prestigious IMS certification in East Africa.

This serves as a recertification for QMS and EMS and transition for OH&S MS from OHSAS 18001:2007 to ISO 45001:2018. To become ISO IMS compliant, Crown Paints Kenya PLC underwent an extensive company-wide audit that included quality, environmental and occupational health and safety management system development; a management system documentation review, internal audit and final certification audit.

Acquiring ISO IMS reinforces Crown Paints Kenya PLC's relentless focus on creating best industry practices in paint manufacturing.

The innovative firm continually invests in improving its integrated management systems by mitigating risks associated with its process in quality, environmental and safety measures.

"In line with its sustainability strategy, Crown Paints Kenya PLC is striving to mitigate its environmental aspects, safety & quality risks by proper waste management, using energy efficient equipments, controlled processes, legal compliance and continuously improving measures taken to protect people and the environment," Rakesh Rao Group CEO. "Crown Paints Kenya PLC is proud to be first paints company in East Africa to achieve certification for all three standards."

The new ISO 45001 standard replaces the previous OHSAS 18001:2007 standard, currently the most widespread for Safety and Health at Work management. Obtaining ISO 45001 guarantees that the company has implemented, among other requirements, a high-level structure with an adequate context analysis, as well as a clear focus on risks and opportunities for workers' safety and health management.

"In line with its sustainability strategy, Crown Paints Kenya PLC is striving to mitigate its environmental aspects, safety & quality risks by proper waste management, using energy efficient equipments, controlled processes, legal compliance and continuously improving measures taken to protect people and the environment."

Rakesh Rao - Group CEO

CHAIRMAN'S STATEMENT

Dear valued shareholder,

2020 was an extra-ordinary year of disruption, change and uncertainty, a year that saw the whole world and its economies ravaged by COVID 19. It is difficult to see any positives in the situation we find ourselves. But I draw hope in the sense of community and oneness COVID has gifted us, to realize we are one people in this one earth. Indeed the price has been heavy, and I say this with a heavy heart - thousands have lost their loved ones and many their livelihoods.
So as I begin, I would like to express my sincere and heartfelt condolences to all those who lost their loved ones, and my sympathies to everyone else struggling to make a living.
Crown has not been spared of this scourge; our people, the business and community we serve have faced a trying and difficult time. Indeed, I am aware that we lost an employee to COVID and so it has not been easy for us as well. However, our employees have given us something to smile about, and allow me at this juncture, to crown them as our own very COVID heroes for driving the growth we hereby reporting to you.

Overview

The initial period of the lockdown had adverse effects on the business as we witnessed a shortage of raw material inflows into the country. This resulted in a rise in raw material pricing and a temporary shortage in certain finished products in the market. However, as governments worldwide instituted measures to ensure the flow of trade, the adverse effects gradually decreased, but the effects have yet to be fully mitigated.

At the height of COVID, there was a lot of uncertainty about the continuity of business. And so the board upon advice, permitted management to modify its priorities so that it could focus on improving production inefficiencies and managing spend. And because of this the business, particularly in the construction paint niche, witnessed a favorable third and fourth quarter performance.

Supporting Communities

As a board we believe in positively impacting communities, and we acknowledge that our business operates in and serves a community. So when COVID 19 struck, we gladly accepted management's proposal to provide support in cash and in kind frontline health workers and vulnerable communities. Starting with Mbagathi Hospital, which was declared the first COVID public isolation center, we donated anti-bacterial water-based Medicrly paint to assist the hospital meet sanitation protocols as well as giving it a facelift. In addition, Crown Paints also donated foodstuffs and hygiene essentials worth millions of shillings, to help cushion vulnerable individuals and communities across various countries.

Governance

The Crown Board remains committed to the standards of Corporate Governance and business ethics. Towards this the board has established proper guidelines and procedures that ensure members of board are not directly involved in the business at any level. In addition, the Board complies with the standards of the Capital Market Authority Code of Corporate Governance Practices for issuance of Securities to the Public in Kenya and is also 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 board member and employee is committed to uphold. The Board of Directors governs Crown in a way that maximizes shareholder value to the best interest of the society.

Board Changes/Developments

On board changes and developments, I would like to notify you of the untimely death of Mr. Francis Maina in November 2020, after a short illness. Francis served the board diligently since 2005 and we shall always remember his amiable manner and his contributions towards the audit committe. May he rest in peace and I pray that his family finds closure and relief.

We have two new members who have joined the board. Allow me to introduce

Ms. Alice Awuor and Mr. Nicholas Kathiari. They have both joined the board following their appointments as Non-Executive Directors on 1st February 2021. We welcome them to the Board and look forward to their positive contribution.

Looking forward

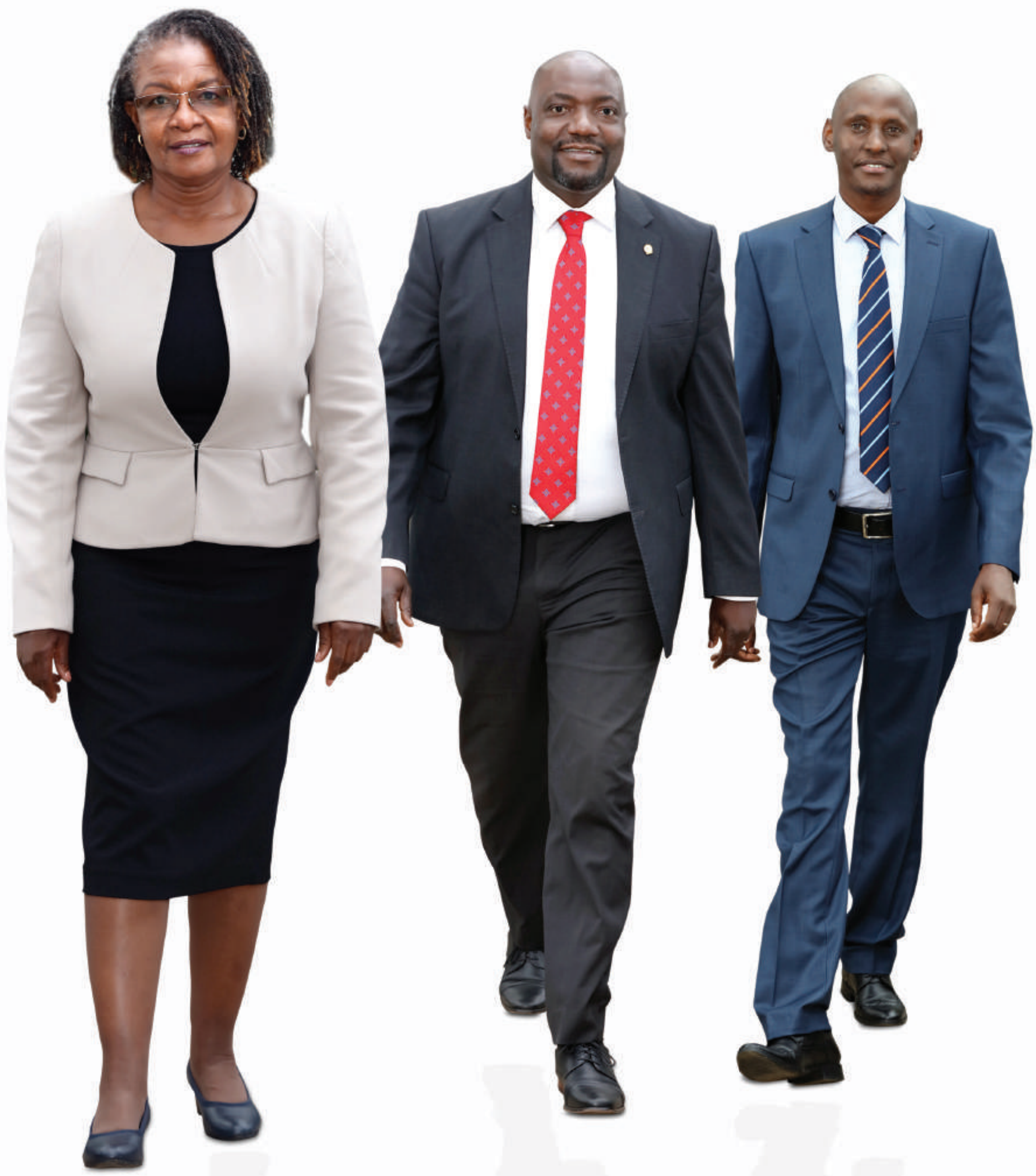
For the year ahead, it is clear that adapting to change is not going to be a matter of choice. It is going to be the prudent thing that we do. And as experts in the region, we project a not so favorable economic outcome in 2021, we therefore shall once again look to the strength of our brand, to our employees and to our network of stakeholders, as the special ingredients that shall deliver a greater return to our shareholders.

Finally, on behalf of the Board of Directors, I wish to thank you all for participating in the just concluded and successful Rights Issue. Further, I would like to recognize our customers, consumers, business partners for their continued support and commitment to Crown. I would also wish to thank our management and employees for their agility and resilience to deliver on a stellar performance during a time of crisis. They have demonstrated deep commitment to the business, and I have no doubt that, with their continued efforts, we shall emerge stronger after this pandemic. I would also like to sincerely thank my fellow Crown Board member for their counsel, support and dedication throughout the year. Even with COVID the future is bright and full of color. Let us crown it.

....

Mhamud Charania
Chairman
17th July 2021

Board of Directors



From L-R
Patrick Mwati - Finance Director | **Hussein Ramji** - Vice Chairman
Rakesh Rao - Group Chief Executive Officer | **Alice Owuor** - Non Executive Director
Stephen Oundo - Non Executive Director | **Nicholas Kathiari** - Non Executive Director

Group Chief Executive Officer Statement

Dear Shareholders,

2020 in my view was a year of learning how to adapt and co-exist with the vagaries and uncertainties brought on by COVID 19. Going forward, most analysts agree that for the foreseeable future it's going to be business unusual. This report, therefore, should be reviewed in the light of the effects of COVID 19. Yet, in spite of a difficult year, I am proud to say from the very onset, that we performed quite well.

Business Environment & Performance

The year under review started robustly which saw the company post impressive returns for the 1st quarter of 2020. However, when the pandemic struck in March of 2020, the demand for our products dropped due to a national lockdown and fear in the minds of our customers. The Kenya Shilling subsequently depreciated, increasing the cost of imported raw materials which inevitably, pushed our production costs upwards. The ease of doing business was further curtailed when the supply chains world over ground to a halt. To forestall an imminent crisis, we took drastic measures to review our operational procedures and implemented production efficiency protocols. In addition, we changed our marketing strategy to focus on positioning our products to target people working from home. All these initiatives bore fruit and because of this we were able to retain our market dominance, particularly in the Premium product category, where we reported an increase in sales for home decoration and construction products.

Statistics reveal that the overall inflation in Kenya, in 2020 averaged 5.3% compared to 5.2% in the previous year. This has been attributed to the effects of the pandemic, which saw the vibrant Service Sector for instance perform dismally on account of lockdowns and business closures. The net effect was that the cost of doing business went up significantly.
On the regional front, the same dynamics was evidenced, with the Ugandan economy reflecting a slowdown in growth due to the impact of COVID-19. Agriculture, Uganda's mainstay, also suffered heavily as result of locust invasion and flooding. Of the four East African countries, where we are present i.e. (Kenya, Uganda, Tanzania, and Rwanda) Tanzania fared best, with the economy reflecting a modest growth in the construction sector. Yet, despite the foregoing, I am happy to report that the business posted positive returns to increase shareholder value. With profitability and cash flow growing amidst, the adverse conditions in the country and in the region at large.

To put it into context the Group's turnover for the year ended 31 December 2020 grew by 7% (KShs 588 million) to KShs 9 billion in comparison with year 2019 which had a 3% (KShs 288 million) increase against the year 2018. Similarly, the operating profit before tax, for year ended 31 December 2020 rose by 63% (KShs 335 million) to KShs 863 Million compared to the year ended 31 December 2019 where a 33% (KShs 132 million) growth was attained against the year ended 31 December 2018.

Slicing down to subsidiaries, I am happy to report that Crown Paints Tanzania Ltd. has been turned around from loss after tax of KES 240 million in year 2019 to break even in year 2020. It is the result of the strategic decisions to centralize major operational activity to Arusha, launching of Sadolin brand and the appointment of an exclusive Distributor in Dar Es Salaam. A similar turnaround was witnessed in Regal Paints Uganda Ltd, which had a loss after tax, of KES 95 million in year 2019 to break even in year 2020. This turnover was a result of cost control and better negotiations with the suppliers and customers. Crown Paints Rwanda on the other hand remained profitable despite low sales due to multiple lock downs. Profit After Tax is KES 12.2 million for year 2020 against the KES 32.4 million of year 2019.

Digital Strategy

It is likely that the digital transformation strategy has been our most significant intervention in 2020. Arguably, this has given Crown an edge over its competitors. In refashioning our digital strategy and in employing data driven matrices, our internal controls and efficiencies have improved, resulting in faster processing of customer orders. One of the key elements to this turnaround has been the integration of our ERP to MPESA which has not only broadened our customer base but has allowed us to process payments faster. Another key aspect is that we have gained flexibility to accommodate non-linear activities - like cushioning painters against the adverse effects of the pandemic. As such mid-last year, we were able to integrate our Team Kubwa painter loyalty points program to the MPESA platform. Consequently, we are now able to convert loyalty points to instant MPESA redemption, KPLC and Naivas shopping vouchers. This has allowed us to eliminate delays in processing of redemptions and painters are getting the much needed assistance during the pandemic.
But overall, the greatest gain has been the integration of our Customer Relationship Management solution (CRM) with our ERP. This integration has not only enabled our agents process orders faster but has also allowed them to have real time visibility on stock

balances, and the deliveries thereof. To allow for quick decision making a similar integrated platform was created for Top management, and as I report this, management now has insight and visibility on all aspects of the business through a new corporate dashboard.

Our people and communities

This report would not be complete without a mention of our employees who have worked tirelessly to ensure that we have maintained profitability, during a very difficult year. Even at the height of the pandemic, our people continued to show enthusiasm for work. In support, this and to enable them to continue working, we implemented the COVID-19 protocols as per government regulations. This ensured that the work environment was safe and good enough to accommodate social distancing. Nevertheless, some of our employees did fall ill and as a responsible employer we covered all their COVID -19 medical costs. Unfortunately, we lost one employee to COVID, and allow me here to say pole to the family, once again.

On the community front, since the outbreak of COVID-19 pandemic in the country, we have carried out numerous relief programs by donating foodstuff and hygiene essentials to different groups of people. We have reached out especially to those in the informal settlements; for they have been affected most by the pandemic due to loss of work. We have made provision for clean water, soap and sanitizers, in addition to food stuffs so that these vulnerable people can make ends meet as they work towards rebuilding their lives.

Another initiative I am proud of is the Team Kubwa Sacco, which is a joint program between our painters on the Team Kubwa platform and Crown to help improve on the saving culture amongst painters.

Product Innovation

On the innovation front, we launched and introduced hand sanitizer as part of our product portfolio. With this we make an initial entry into the personal protective gear market. Future reviews will however need to be undertaken to establish if this niche is viable for Crown to pursue.

We also cemented our position in both the premium and economy segments through introduction of new products.

- Crown Ultraguard, a first of its kind, an anti-dust paint with a warranty of 15 years. It is developed in Germany by Wacker Chemie PLC, the paint is designed with Silicone Technology.

- Medicryl antibacterial silk and matt paint approved by UK Industrial Microbial Services Ltd. A premium paint suitable for high traffic areas susceptible to fungi and bacteria and works to impede their growth.

- For the economy market we have introduced Walplast Level Putty, a product used mainly in the construction sector to cover unevenness and pinholes on exterior and interior surfaces.

I am happy to report that the initial reports indicate that these three products are performing quite well and our innovation to sales ratio is at 15- 20% over the years.

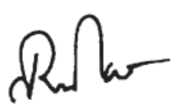
Future Outlook

Allow me to end this report reiterating that Covid is with us, and we must acknowledge and learn to live with it. However, in doing so, I, together with my management team shall continue to work towards mitigating its impact to the business. It will not be prudent on my part if I did not make it known that the situation remains worrying. Particularly, on how it has impacted on the cost of raw materials, both on price of materials and loss of time due to worldwide logistical inefficiencies. These two factors have made the cost of raw material increase by 40-60 % and should this continue it will have serious impact on our profitability in the coming years.

We also remain cautious due to the continued lockdowns in the country, take for instance Kisumu which is one of our strongest markets, the partial lockdown has already affected our sales adversely. A bigger risk is that on the back of an approaching election year, and with the pandemic continuing to strike in waves across the country, the economy may not recover sufficiently, this will inevitably be a cause for concern for us.

However, I wish to guarantee shareholders that I, and my team, shall continue to strategize on the best way to maximise value to shareholders with focus on new products, new verticals, digital marketing and brand visibility to improve our sales and brand equity further. Our resilient performance in 2020 reflects our commitment to build a sustainable business. As we continue to navigate the COVID-19 pandemic, our primary focus remains to safeguard the wellbeing of our employees, maintain business continuity while protecting jobs as best as we can, while meeting the evolving consumer preferences promptly.

Finally, I would like to thank the Board of Directors, management, staff, customers and other stakeholders for their support, it has been a collective effort to grow the brand in the region and I am looking forward to another prosperous year together.

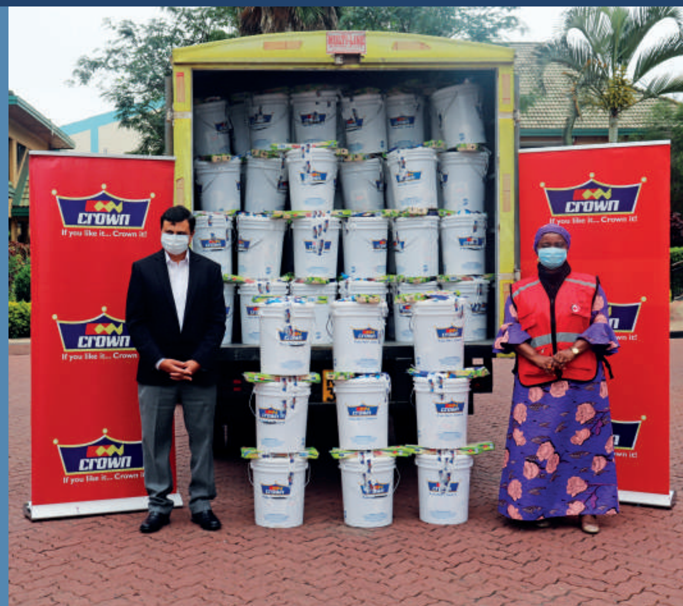


....

Dr. Rakesh Rao
Group Chief Executive Officer
7th July 2021

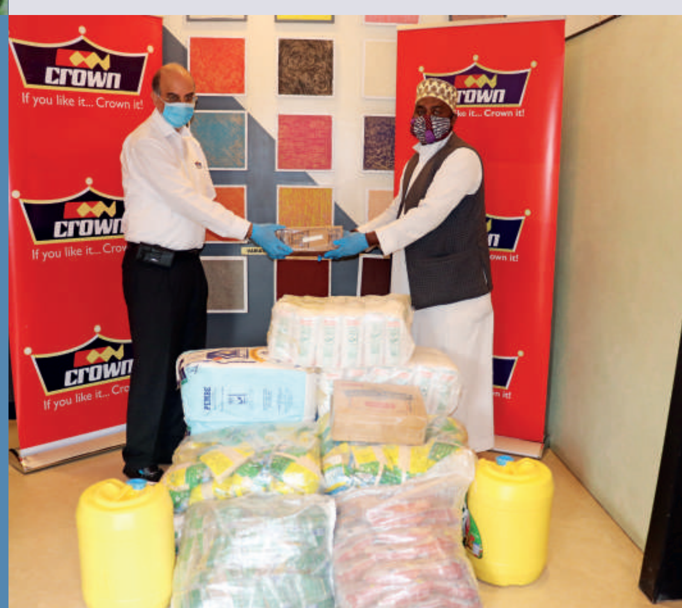
CSR

Since the outbreak of COVID-19 in the country, vulnerable groups are facing a myriad of challenges, from lack of access to clean water to lack of resources like soap, sanitizers and food items. Crown Paints, through Red Cross Kenya & Stand Up Shout Out organization, has donated food & hygiene essentials to the vulnerable, to support government's efforts and other measures being undertaken to curb the spread of the virus.

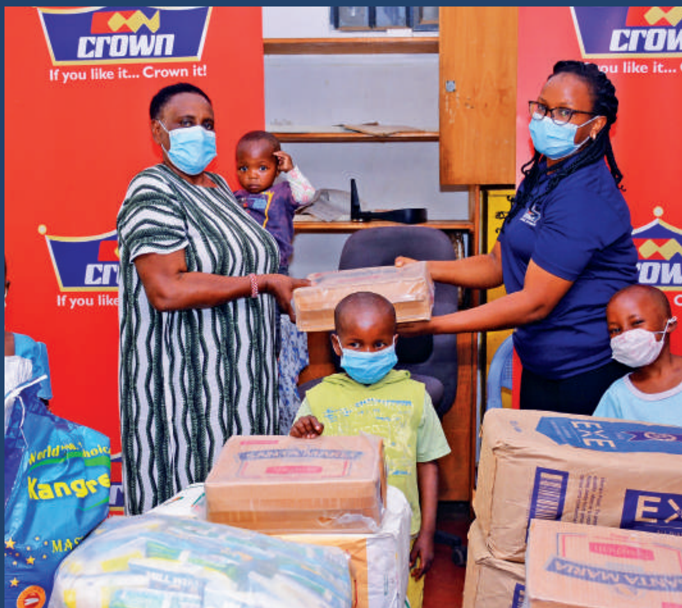


Crown Paints is always proud to extend its hand to vulnerable groups across the country.

Crown Paints Vice Chairman Hussein Ramji donates food to Sheikh Ali Omar Kamira of Pangani Shauri Moyo Mosque at the Likoni showroom during the Iftra Ramadhan Programme for the elderly and needy people.

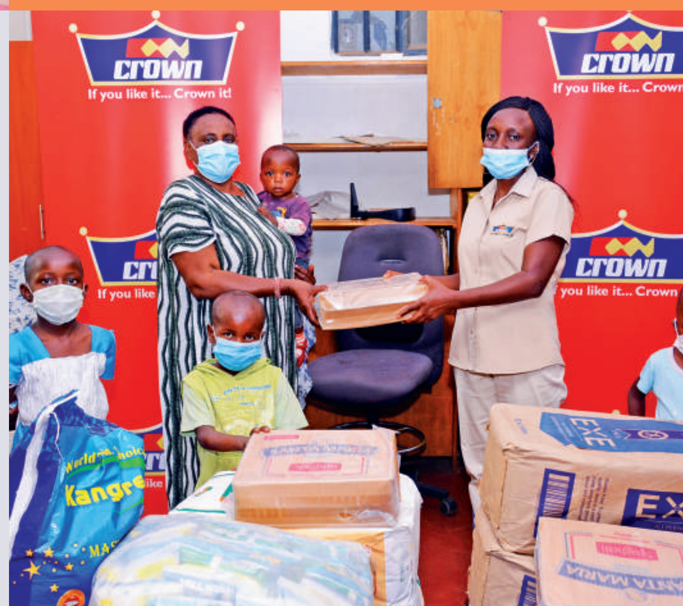


CSR



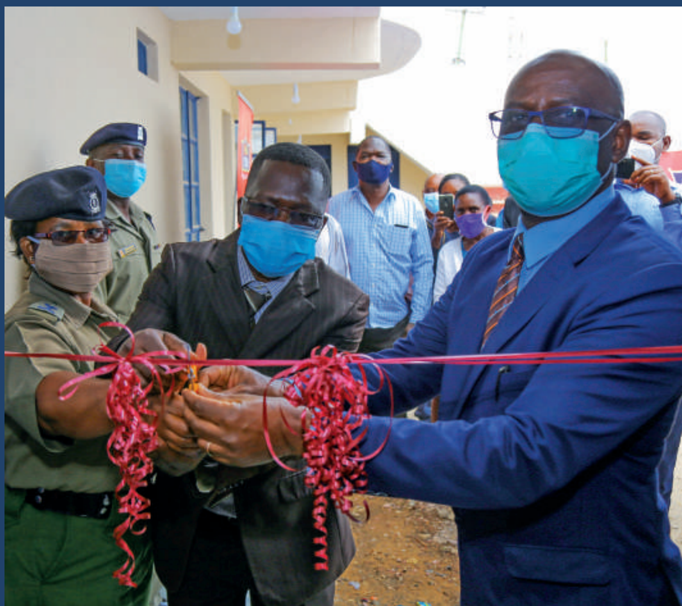
Crown Paints, in collaboration with Plaza Soap Limited, gave Children from St Paul's Children Home a reason to smile, with a donation of food and hygiene essentials. The future is theirs, and we support any efforts to actualize their dreams.

Crown Paints believes that the future is in the hands of children. Thus, we shall extend our every support to them.



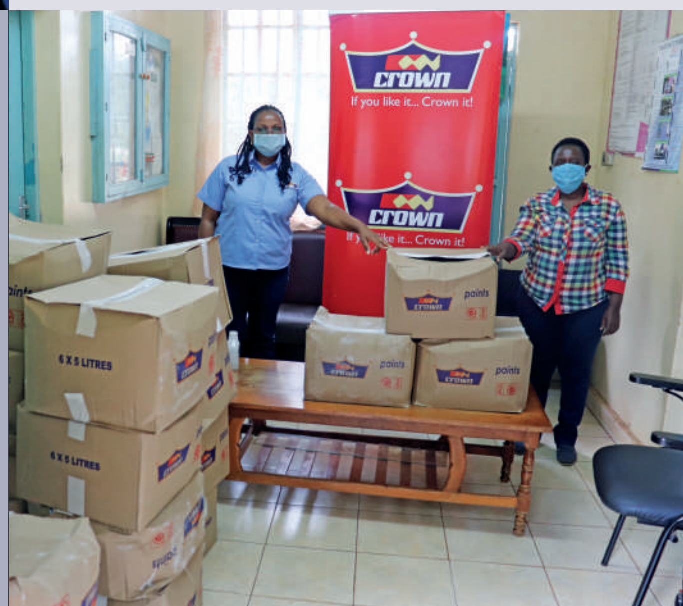
Crown Paints appreciates the important role played by the police in law enforcement and has repainted over 30 police stations in the past 5 years. The partnerships involves enhancing the image of the police stations and creating a positive ambience not only for the police officers but also for those who may seek services at the station.

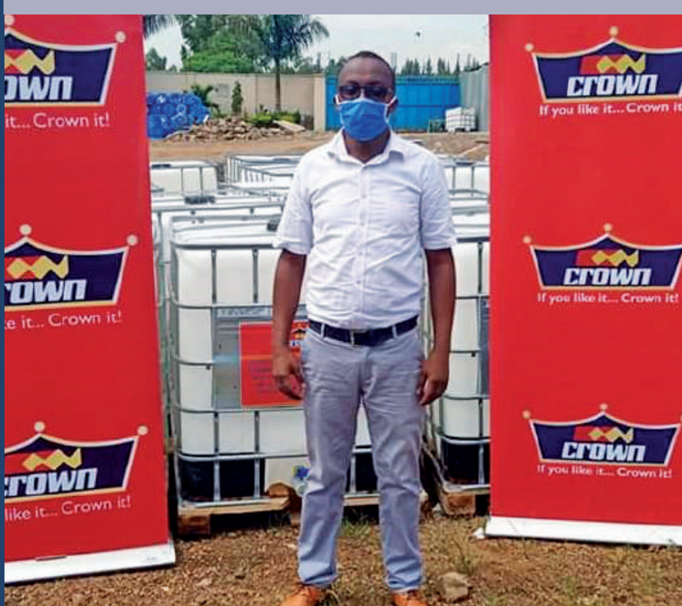
CSR



From (L) Athi River Sub-county Police Commander Catherine Ringera, Muungano Community Chairperson William Ngombe and Crown Paints Group Human Resource Manager Nicholas Wanambisi cut a ribbon during the handover ceremony.

Crown Paints has over a period of 5 years invested over Ksh 150 million in transformative projects that change people's lives. We have embarked on donating paints while painting various Children's Homes and Education Centres as parts of our transformative agenda of providing world class solutions whilst caring for the environment and community where we operate in.





To assist in water security within Kisumu County, Crown Paints donated over 30 tanks each of 1000L capacity. The initiative, will benefit residents of Kisumu East with clean drinking water during this COVID-19 period and beyond.

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

At Crown, the Board is responsible for establishing the broad corporate policies, setting strategic direction, and overseeing the Company's management of the day-to-day operations. To fulfill these roles, each Director exercise's his or her good faith in making business judgment in the best interests of Crown.

The Board comprises of seven (7) Directors, of whom three (3) are Executive. The Board takes collective responsibility to the Company's shareholders for the long-term success of the Company. It therefore provides leadership to achieve the business objectives.

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 stipulate the terms of their appointment.

Composition of the Board

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. The current composition of the Board is given on page 25.

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

The Board has established committees to help it perform its responsibilities. The committee members and committee chairs are recommended by the Nomination and Remuneration Committee. Each of the committees has its own charter.

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

a) Audit and Risk Committee

The committee consists entirely of Non-Executive Directors all of whom the Board has

a) Audit and Risk Committee (Continued)

determined are independent. The members are deemed to be financially literate and have the requisite understanding, ability and experience to qualify as “audit committee financial experts” within the meaning set forth under the CMA code.

It reports to the Board and 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 ad hoc committees to deal with specific matters that may occur.

Communication with Shareholders

To the Company, it is important, for our shareholders, to understand our fundamental management and decision-making approach so as to ensure that it is consistent with their own investment philosophy.
To ensure the long-term existence of our Company and a future increase in shareholder value, the Board continues to persistently focus on the customer and their preferences. This ensures that the tight link between the customer and shareholder interests are maintained in the long-term.
In this regard, the Company is committed to maintaining direct, open, timely and effective two-way communications with all shareholders.

The Company communicates with shareholder through:
1. The releases of notices in the local national press of its half-yearly and annual results in compliance with statutory requirements.
2. Issuing of the Annual Report.
3. Holding of the Annual General Meeting where the shareholders can ask questions and freely interact with the Board.
4. The Company also has a web site https://www.crownpaints.co.ke/ where information about the organization is regularly updated.

Directors’ Emoluments and Loans

The Non – Executive Directors are paid an annual fee and a sitting allowance for every meeting attended. They are not eligible for 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 85 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

FINANCIAL STATEMENTS

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.

NCBA Bank Kenya PLC
P. O. Box 30437 – 00100
Nairobi.

Absa Bank of Kenya Plc
P.O. Box 46661 - 00100
Nairobi.

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

SOLICITORS
Kairu Mbuthia Law LLP
Applewood Adams, 13^{th} Floor,
Office Suite No. 1308, Ngong Road,
P.O. Box 6574 - 00100
Nairobi.

SECRETARY
Conrad Nyukuri
C/o Adili Corporate Services Kenya
ALN House, Eldama Ravine Close,
Off Eldama Ravine Road, Westlands
P.O. Box 764 - 00606
Nairobi.

REGISTRARS
Custody and Registrar Services Ltd
IKM Place, Tower B, 1st Floor,
5th Ngong Avenue, Off Bishops Road,
P.O Box 8484 00100
GPO Nairobi.
Tel: +254 20 8690360

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 2020, 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 24.

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 38.

4. COMPANY RESULTS

The results for the year are set out on page 42.

5. DIVIDENDS

Subject to approval by the shareholders, the directors do not recommend the payment of any dividend (2019: Nil).

6. FINANCIAL STATEMENTS

Except as indicated in Note 35 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)
Dr. Rakesh Kumar Rao	-	Group Chief Executive Officer
Hussein H.R.J. Charania	-	Executive
Patrick Muriithi Mwati	-	Executive
Francis G.K. Maina	-	Non-executive - Deceased November 2020
Steven Bwire Oundo	-	Non-executive
Nicholas Kathiari	-	Non-executive - Appointed 1 February 2021
Alice Owuor	-	Non-executive - Appointed 1 February 2021

9. BUSINESS REVIEW

The Group's turnover for the year ended 31 December 2020 grew by 7% (KShs 588 million) to KShs 9 billion in comparison with year 2019 which had a 3% (KShs 288 million) increase against the year 2018. Similarly, the operating profit before tax, for year ended 31 December 2020 rose by 63% (KShs 335 million) to KShs 863 Million compared to the year ended 31 December 2019 where a 33% (KShs 132 million) growth was attained against the year ended 31 December 2018.

The year ended 31 December 2020, saw our day to day life and activities greatly altered following the outbreak of the Corona virus epidemic "Covid-19". This resulted in the government (on advice from Ministry of Health and the World Health Organisation) instituting containment measures not seen recently, to deal with the spread of the virus. Similarly, worldwide, governments instituted similar measures as deaths begun to rise to scarily numbers. These containment measures did not favour businesses as commerce and industry was not prepared for such stringent measures like curfews, lockdown and social distancing.

For the group's business, the first quarter began brightly compared to a similar period in 2019 and had signalled a better 2020 performance. However, in March, 2020, the COVID-19 outbreak was confirmed leading to three East African countries instituting lockdown measures in April 2020, as they tried to contain the spread of the virus. Our business closed in Rwanda and Uganda. However, for Kenya we remained open despite very low business. It is worth noting that despite our business remaining open over this period, it has been our company's core priority to ensure its employees and customers health were well safeguarded by ensuring that our premises were compliant with the Ministry of Health guidelines.

The initial period of the lockdown (containment) had adverse effects on the business as we observed a shortage of materials inflows into our country. The effect of this was a slight shift upwards in raw material prices and a temporary shortage of certain of our products in the market. This was however resolved as governments instituted measures to ensure the flow of trade.

In order to ensure continuity of our company, the management had to change its priorities to offset this difficult time by curtailing spending on matters that were deemed not effective during this period.

Unlike many other sectors of our economy where performance decreased due to adverse effects of the lockdown, the painting sector of the construction industry saw the third and fourth quarters being favourable as business activity picked up mainly due to heightened activities of residential repairs and improvements, hence, our business delivering a growth of 63% to the bottom line.

Politically, during 2020 the region was generally stable despite Tanzania and Uganda preparing and holding elections.

The Board remains committed to ensuring that the business remains responsive to the needs of the communities in which we operate in, not only for business reasons but for the environmental and social purposes to achieve a sustainable business.Risk management practises that identify and ensure management proactively deals with the risks continue to be followed. The board has highlighted the need to be responsive to customer needs and the awareness of our competitor business activities as key matters for the business and had enhanced the capacities of the Information Communication & Technology (ICT), Product research and development and Procurement departments to ensure effective response to any new trends.

REPORT OF THE DIRECTORS (continued)

Below are some of the risks;

Risk		Mitigation
Strategic		
	Regulatory Environment The Group is expected to comply with all regulatory bodies and governments' requirements.	• The Group ensures that its products meet the regulatory requirements. • The Group engages regulatory authorities to ensure compliance. • The Group actively participates with other stakeholders in building relationships with the regulatory authorities.
	Competition The paint industry has become ever more competitive both in terms of the products and players.	• The Group through its research and development team is continuously developing its products to meet the market demands. • The Group continuously monitors the market for the entry of new players and the threat that they offer.
	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.

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 12,184,824 has been charged to profit or loss in the year.

13. GOING CONCERN

The directors have made an assessment of the group's and the company's ability to continue as a going concern and are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 35, 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 separate and consolidated financial statements.

By Order of the Board

....

Conrad Nyukuri
Secretary

7th June 2021

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 group's and the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 35, 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 separate and consolidated 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 7th June 2021 and signed on its behalf by:

………………………………………	………………………………………
Rakesh Kumar Rao	Patrick Muriithi Mwati
Group Chief Executive Officer	Group Finance Director

DIRECTORS' REMUNERATION REPORT ON THE FINANCIAL STATEMENTS

The Directors' Remuneration Report sets out the policy that the company has applied to remunerate executive and non-executive directors. The report has been prepared in accordance with the relevant provisions of the CMA code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015, and the Companies (General) (Amendments) (No.2) Regulations, 2018.

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 2020. The aggregate directors' emoluments are disclosed in notes 9 and 22.

If you like it... Crown it!

DIRECTORS' REMUNERATION REPORT (Continued) ON THE FINANCIAL STATEMENTS

31 December 2020

Director	Role	Category	Gross earnings including pension contribution KShs	Annual bonus KShs	Sitting allowances KShs	Other benefits* KShs	Total KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	108,216	6,217,608
Hussein Ramji Charania	Vice- chairman	Executive	43,326,500	5,415,000	-	3,677,305	52,418,805
Rakesh Kumar Rao	Chief Executive Officer	Executive	36,578,500	4,560,000	-	7,805,836	48,944,336
Patrick Muriithi Mwati	Finance Director	Executive	30,136,500	3,765,000	-	8,471,551	42,373,051
Francis Gichuhi Maina	Director	Non- executive	-	-	746,500	-	746,500
Stephen Bwire Oundo	Director	Non- executive	-	-	1,027,000	-	1,027,000
Total			116,150,892	13,740,000	1,773,500	20,062,908	151,727,300

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

DIRECTORS' REMUNERATION REPORT (Continued) ON THE FINANCIAL STATEMENTS

31 December 2019

Director	Role	Category	Gross earnings including pension contribution	Annual bonus	Sitting allowances	Other benefits*	Total
			KShs	KShs	KShs	KShs	KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	105,816	6,215,208
Hussein Ramji Charania	Vice- chairman	Executive	43,322,400	3,610,000	-	1,592,895	48,525,295
Rakesh Kumar Rao	Chief Executive Officer	Executive	41,393,155	3,040,000	-	7,149,478	51,582,633
Patrick Muriithi Mwati	Finance Director	Executive	35,181,398**	2,510,000	-	5,834,830	43,526,228
Francis Gichuhi Maina	Director	Non- executive	-	-	1,027,000	-	1,027,000
Stephen Bwire Oundo	Director	Non- executive	-	-	941,026	-	941,026
Total			126,006,345	9,160,000	1,968,026	14,683,019	151,817,390

*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 2,319,998.

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF CROWN PAINTS KENYA PLC AND SUBSIDIARIES

Report on the Audit of the Consolidated and Separate Financial Statement 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 37 to 115, which comprise the consolidated and separate statements of financial position as at 31 December 2020, 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 2020, 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) and other independence requirements applicable to performing audits of the group and the company and in Kenya. 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 the group and company and in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key matter
Impairment consideration of 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 as at 31 December 2020, representing 33% 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 35 to the financial statements. We focused on the impairment of the investment in the subsidiary companies 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 35 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 determining the expected future cash-inflows, discounting rate, control premium and terminal growth rate in perpetuity of the cashflows 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 involved EY internal specialists, the Strategy and Transactions (SaT) team, in the review of the assumptions made by management. We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances. We 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.

Other Information

Other information consists of the information included in the 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. The directors are responsible for the other information.

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, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

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 and the company'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 and the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

i) in our opinion, the information given in the report of the directors on page 25 to 28 is consistent with the consolidated and separate financial statements.

ii) in our opinion, the auditable part of directors' remuneration report on page 30 to 32 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.

....

For and on behalf of Ernst & young LLP

Certified Public Accountants

Nairobi, Kenya

30th June. 2021

If you like it... Crown it!

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,497,240	1,545,745
Right of use assets	5	213,362	234,229
Intangible assets	4	59,841	50,419
Deferred tax	14	39,178	55,790
		1,809,621	1,886,183
CURRENT ASSETS			
Inventories	7	1,908,397	1,853,155
Trade and other receivables	8	1,370,195	1,224,017
Amounts due from related companies	9(i)	104,136	87,677
Cash and cash equivalents	28	334,139	442,793
Current tax recoverable	10	104,374	27,716
		3,821,241	3,635,358
TOTAL ASSETS		5,630,862	5,521,541
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	1,553,605	951,405
		1,909,510	1,307,310
NON-CURRENT LIABILITIES			
Lease liability	30	127,132	137,251
Bank loans	16	377,088	438,782
		504,220	576,033
CURRENT LIABILITIES			
Lease liability	30	79,940	96,551
Bank overdraft	15	30,291	53,550
Bank loans	16	430,234	623,000
Short term notes	17	510,881	1,033,212
Amounts due to related companies	9(ii)	44,019	16,498
Trade and other payables	18	2,113,852	1,779,487
Provisions	29 (b)	7,915	15,680
Current tax payable	10	-	20,220
		3,217,132	3,638,198
TOTAL EQUITY AND LIABILITIES		5,630,862	5,521,541

The financial statements were approved by the Board of Directors on 7th June 2021 and signed on its behalf by:

Rakesh Kumar Rao
Group Chief Executive Officer

Patrick Muriithi Mwati
Group Finance Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	9,191,704	8,603,652
COST OF SALES	20	(5,272,474)	(5,185,676)
GROSS PROFIT		3,919,230	3,417,976
OTHER INCOME	21	317,251	300,732
		4,236,481	3,718,708
EXPENSES: -			
Net allowance for expected credit losses third party	8	208,223	(74,368)
Net allowance for expected credit losses related parties	9	(128,505)	145,494
Administration and establishment	22	(2,156,208)	(1,840,929)
Selling and distribution	23	(1,055,139)	(1,115,577)
Finance costs	24	(241,966)	(305,354)
		(3,373,595)	(3,190,734)
PROFIT BEFORE TAX	26	862,886	527,974
TAX EXPENSE	10	(263,381)	(204,951)
PROFIT FOR THE YEAR		599,505	323,023
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		2,695	136
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		2,695	136
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		2,695	136
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		602,200	323,159
ATTRIBUTABLE TO:			
Owners of the parent		602,200	323,159
Non- controlling interest		-	-
		602,200	323,159
Basic and diluted earnings per share (KShs)	27	8.42	4.54

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital	Share premium	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Total equity
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2019		355,905	80,174	81,229	86,675	422,877	1,026,860
Profit for the year		-	-	-	-	323,023	323,023
Other comprehensive income		-	-	-	136	-	136
Total comprehensive Income		-	-	-	136	323,023	323,159
Transfer of revaluation reserve on disposal		-	-	(895)	-	895	-
Transfer of excess depreciation- 2019		-	-	(18,743)	-	18,743	-
2018 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
At 31 December 2019		355,905	80,174	61,591	86,811	722,829	1,307,310
At 1 January 2020		355,905	80,174	61,591	86,811	722,829	1,307,310
Profit for the year		-	-	-	-	599,505	599,505
Other comprehensive income		-	-	-	2,695	-	2,695
Total comprehensive Income		-	-	-	2,695	599,505	602,200
Transfer of revaluation reserve on disposal		-	-	(763)	-	763	-
Transfer of excess depreciation- 2020		-	-	(17,335)	-	17,335	-
At 31 December 2020		355,905	80,174	43,493	89,506	1,340,432	1,909,510

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
OPERATING ACTIVITIES			
Profit before tax		862,886	527,974
Adjustments for: -			
Depreciation on property, plant and equipment	3	211,125	183,062
Amortisation of intangible assets	4	17,211	14,207
Amortisation on right of use assets	5	118,650	99,035
Unrealised foreign exchange loss		17,749	32,813
Unrealised foreign exchange gain		(9,700)	(26,078)
Interest expense	24	241,966	305,354
Interest income	21	(11,122)	(12,217)
Allowance for bad debts – third parties	8	59,634	259,778
Allowance for bad debts – related parties	9	131,631	13,262
Bad debts written off	23	21,825	6,649
Leave accrual write back	21	(2,687)	(14,068)
Inventory write-down	7	34,518	36,657
Reversals of inventory write down	7	(24,707)	(23,008)
Gain on lease termination	21	(6,543)	-
Rent concession	21	(2,293)	-
Provision for legal cases	29 (b)	(7,765)	7,765
(Gain)/ loss on disposal of property, plant and equipment	21& 22	(1,155)	(3,388)
Operating profit before working capital changes		1,651,223	1,407,797
Increase in trade and other receivables		(227,637)	(247,739)
(Increase)/decrease in inventories		(65,053)	273,408
Increase/(decrease) in trade and other payables		337,052	(55,017)
Increase in amounts due from related parties		(148,090)	(4,996)
Increase/ (decrease) in amounts due to related parties		27,521	(226,730)
Cash generated from operations		1,575,016	1,146,723
Income tax paid	10	(352,214)	(189,377)
Interest received	21	11,122	12,217
Interest paid		(174,626)	(305,352)
Net cash generated from operating activities		1,059,298	664,211
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(143,752)	(241,327)
Purchase of intangible assets	4	(26,320)	(27,106)
Proceeds on sale of property, plant and equipment		2,034	17,264
Net cash used in investing activities		(168,038)	(251,169)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,078,706	1,395,116
Repayment of bank loans	16	(1,371,587)	(1,545,171)
Proceeds from short term notes	17	55,063	968,488
Repayments of short-term notes	17	(636,666)	(1,041,032)
Lease liability payments principal portion		(118,075)	(85,129)
Dividends paid on ordinary shares	13	-	(42,709)
Net cash used in financing activities		(992,559)	(350,437)
Net (decrease)/ increase in cash and cash equivalents		(101,299)	62,605
Cash and cash equivalents at the beginning of the year		389,243	332,264
Effect of exchange rate changes on cash and cash equivalents		15,904	(5,626)
Cash and cash equivalents at the end of the year	28	303,848	389,243

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,230,721	1,262,117
Intangible assets	4	56,158	45,347
Investments in subsidiary companies	6	1,019,277	1,136,204
Right to use assets	5	153,754	126,377
Deferred tax	14	39,178	55,790
		2,499,088	2,625,835
CURRENT ASSETS			
Inventories	7	1,453,448	1,432,278
Trade and other receivables	8	1,079,370	951,350
Amounts due from related parties	9(i)	175,701	110,895
Current tax recoverable	10	75,131	-
Cash and cash equivalents	28	242,339	349,837
		3,025,989	2,844,360
TOTAL ASSETS		5,525,077	5,470,195
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	2,000,428	1,581,190
		2,356,333	1,937,095
NON-CURRENT LIABILITIES			
Lease liability	30	106,889	83,002
Bank loans	16	283,231	330,338
		390,120	413,340
CURRENT LIABILITIES			
Lease liability	30	43,204	41,148
Bank overdraft	15	30,291	53,550
Bank loans	16	411,113	467,552
Short term notes	17	510,881	1,033,212
Trade and other payables	18	1,725,319	1,446,037
Provisions	29 (b)	7,915	15,680
Tax payable	10	-	20,220
Amounts due to related parties	9(ii)	49,901	42,361
		2,778,624	3,119,760
TOTAL EQUITY AND LIABILITIES		5,525,077	5,470,195

The financial statements were approved by the Board of Directors on 7th June 2021 and signed on its behalf by:

....

Rakesh Kumar Rao
Group Chief Executive Officer

Patrick Muriithi Mwati
Group Finance Director

COMPANY STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
REVENUE	19	8,401,195	7,930,021
COST OF SALES	20	(4,800,185)	(4,699,512)
GROSS PROFIT		3,601,010	3,230,509
OTHER INCOME	21	146,707	190,530
		3,747,717	3,421,039
EXPENSES: -			
Net allowance for expected credit losses third party	8	189,267	(89,029)
Net allowance for expected credit losses related parties	9	(154,272)	27,663
Administration and establishment	22	(1,884,257)	(1,498,124)
Selling and distribution	23	(889,446)	(902,780)
Finance costs	24	(211,912)	(269,453)
Impairment loss on investment in subsidiaries	6	(116,927)	(653,081)
		(3,067,547)	(3,384,804)
PROFIT BEFORE TAX	26	680,170	36,235
TAX EXPENSE	10	(260,932)	(203,340)
PROFIT FOR THE YEAR		419,238	(167,105)
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		419,238	(167,105)
Basic and diluted earnings per share (KShs)	27	5.89	(2.35)

If you like it... Crown it!

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2019		355,905	80,174	121,605	1,589,225	2,146,909
Profit for the year		-	-	-	(167,105)	(167,105)
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	(167,105)	(167,105)
Transfer of revaluation reserve on disposal		-	-	(895)	895	-
Transfer of excess depreciation- 2019		-	-	(18,393)	18,393	-
2018 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2019		355,905	80,174	102,317	1,398,699	1,937,095
At 1 January 2020		355,905	80,174	102,317	1,398,699	1,937,095
Profit for the year		-	-	-	419,238	419,238
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	419,238	419,238
Transfer of revaluation reserve on disposal		-	-	(763)	763	-
Transfer of excess depreciation- 2020		-	-	(17,335)	17,335	-
At 31 December 2020		355,905	80,174	84,219	1,836,035	2,356,333

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

OPERATING ACTIVITIES	Note	2020 KShs'000	2019 KShs'000
Profit before tax		680,170	36,235
Adjustments for:-			
Depreciation on property, plant and equipment	3	159,329	133,549
Amortisation of intangible assets	4	14,909	11,444
Amortisation on right of use asset	5	59,723	50,605
Unrealised exchange loss		15,909	7,503
Unrealised exchange gain		-	(12,490)
Interest expense	24	211,912	269,453
Interest income	21	(876)	(1,067)
Allowance for bad debts-third parties	8	56,665	221,372
Allowance for bad debts-related parties	9	231,862	143,385
Bad debts written off	23	9,801	149
Impairment loss on investment in subsidiaries	6	116,927	653,081
Leave accrual write-back	21	(2,687)	(14,062)
Inventory write-downs	7	28,220	33,424
Reversals of inventory write down	7	(24,448)	(17,501)
Gain on lease termination	21	(6,543)	-
Rent concession	21	(1,858)	-
Provision for legal cases	29(b)	(7,765)	7,765
Loss/ (gain) on disposal of property, plant and equipment	21 & 22	137	(435)
Operating profit before working capital changes		1,541,387	1,522,410
Increase in trade and other receivables		(194,486)	(249,813)
(Increase)/ decrease in inventories		(24,942)	220,640
Increase/ (decrease) in trade and other payables		281,969	(112,835)
Increase in amounts due from related parties		(296,668)	(137,352)
Increase/ (decrease) in amounts due to related parties		7,540	(251,912)
Cash generated from operations		1,314,800	991,138
Income tax paid	10	(339,671)	(182,076)
Interest received	21	876	1,067
Interest paid		(152,640)	(269,455)
Net cash generated from operating activities		823,365	540,674
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(129,081)	(209,171)
Purchase of intangible assets	4	(25,720)	(25,578)
Proceeds from sale of property, plant and equipment		1,011	1,330
Net cash used in investing activities		(153,790)	(233,419)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,078,706	1,388,615
Repayments of bank loans	16	(1,206,182)	(1,491,405)
Proceeds from short term notes	17	55,063	968,488
Repayments of short-term notes	17	(636,666)	(1,041,032)
Lease liability payments principal portion		(52,760)	(45,398)
Dividends paid on ordinary shares	13	-	(42,709)
Net cash used in financing activities		(761,839)	(263,441)
Net (decrease)/ increase in cash and cash equivalents		(92,264)	43,814
Cash and cash equivalents at the beginning of the year		296,287	247,483
Effect of exchange rate changes on cash and cash equivalents		8,025	4,990
Cash and cash equivalents at the end of the year	28	212,048	296,287

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended standards, interpretations and improvements effective as of 1 January 2020 and 1 June 2020. The group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The new standards and amendments effective of as of 1 January 2020 and 1 June 2020 are listed below:

- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39
- Definition of Material – Amendments to IAS 1 and IAS 8
- The Conceptual Framework for Financial Reporting
- Covid-19-Related Rent Concessions – Amendment to IFRS 16

The relevant amendments and interpretations to the group have been discussed below: -

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The group elected to adopt this amendment before 1 June 2020. Refer to note 30.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. These standards are not expected to have a material impact on the group's financial statements.

Effective for annual periods beginning on or after 1 January 2021

Interest Rate Benchmark Reform ("IBOR reform") phase 2

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Interbank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The effective date of the IBOR reform Phase 2 amendments is for annual periods beginning on or after 1 January 2021, with early application permitted. The requirements must be applied retrospectively. Any hedging relationships that were discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when the Phase 2 amendments are applied, must be reinstated upon initial application. The IBOR reform Phase 2 amendments are expected to be endorsed by the EU in time for 2020 December year-end reporting.

The Group is currently assessing all the contracts affected by the IBOR reforms with a view of carrying out a detailed impact assessment.

Effective for annual periods beginning on or after 1 January 2022

- Reference to the Conceptual Framework- Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use- Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

Effective for annual periods beginning on or after 1 January 2023

- IFRS 17 Insurance Contracts
- Classification of Liabilities as Current or Non-current- Amendments to IAS 1

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 thousands, 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 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A listing of the subsidiaries in the Group is provided in Note 6.

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

c) Foreign currency transactions

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

(i) Transactions and balances

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

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

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

(ii) Group companies

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

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 arranges for the goods or services provided by the latter and how they are transferred to the customer without taking control.

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).

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.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

Deferred tax

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

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

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

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

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

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

Value added tax

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

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of value added tax included.

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

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 with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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, net of any related deferred tax. 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	25%
Computers and equipment	20%

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leases

The Group assesses, at contract inception, whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.
Right-of-use assets are depreciated on a straight-line basis over the lease term.
The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2 (r) (i) and 2 (r) (ii), significant accounting judgments and key sources of estimation uncertainty, impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leases (continued)

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (if any) (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line over the lease terms and included in other income in the statement of profit or loss. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Intangible assets (continued)

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).

a) Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

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 (d) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

i) Financial assets (continued)

Initial recognition and measurement (continued)

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Impairment of financial assets

For trade receivables and bank balances, the Group applies a simplified approach in calculating the Expected Credit Loss (ECL). 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. The amount written off is recognised in the statement of profit of loss. Any reversal of provision for ECLs is recognised in the statement of profit or loss which is based on the established provision matrix.

ii) Financial liabilities

Initial recognition and measurement

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities (continued)

After initial recognition, interest-bearing loans, overdrafts and short-term notes are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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

No such arrangements exist where the Group offsets financial assets and financial liabilities.

j) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Fair value of assets and liabilities (continued)

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 33.

k) Inventories

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

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

Finished goods and work-in-progress
Cost is determined on a weighted average basis and comprises cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.
Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Allowance 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.

Reversal of inventory write down occurs when inventory assessed as slow moving is used as input in production or is finally sold. Provision for slow moving and obsolete inventories is normally based on the last movement day of the stock item which varies with subsequent sales or use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) 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.

m) 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.

n) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

p) 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.

q) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 and related party balances is disclosed in Note 8 and 9.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Group's functional currency).

The Group's incremental borrowing rate is estimated at the Group level and is based on the average rate of obtaining loans from commercial banks. The Management used 13% as the incremental borrowing rate.

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.

Income taxes

The Group is subject to income taxes in Kenya, Uganda, Rwanda and Tanzania. Significant judgement is required in determining the company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business, the company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.
Further details on income taxes are disclosed in Notes 10.

Going concern

The management makes significant judgement in assessing the effect the financial performance and financial status of the subsidiaries, have, on the ability of the group to continue as a going concern. The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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 2 (f) and 3.

Revaluation of certain classes of property, plant and equipment

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

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

Useful lives of intangible assets

Critical estimates are made by directors in determining the useful lives to intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates. Further details on intangible assets are given in Note 4.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Estimates and assumptions (continued)

Impairment of non-financial assets (continued)

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.
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 (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2020

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2020	47,752	701,661	569,654	256,653	507,304	22,186	2,105,210
Additions	10,920	6,966	51,060	10,544	60,784	3,478	143,752
Transfer from WIP	-	-	-	-	5,078	(5,078)	-
Disposals	-	-	-	(3,533)	(702)	-	(4,235)
Exchange differences	-	249	18,961	5,485	10,655	1,234	36,584
At 31 December 2020	58,672	708,876	639,675	269,149	583,119	21,820	2,281,311
Accumulated depreciation							
At 1 January 2020	-	41,929	162,377	156,192	198,967	-	559,465
Charge for the year	-	14,804	48,217	60,153	87,951	-	211,125
Eliminated on disposals	-	-	-	(3,039)	(317)	-	(3,356)
Exchange differences	-	161	5,807	3,793	7,076	-	16,837
At 31 December 2020	-	56,894	216,401	217,099	293,677	-	784,071
Net carrying amount	58,672	651,982	423,274	52,050	289,442	21,820	1,497,240

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 KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	502,269	409,690	47,247	315,797	1,275,003

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2019

	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 2019	32,152	687,716	517,561	219,994	397,070	32,585	1,887,078
Additions	15,600	13,918	51,625	45,505	111,399	3,281	241,328
Disposals	-	-	-	(8,544)	-	(12,981)	(21,525)
Exchange differences	-	27	468	(302)	(1,165)	(699)	(1,671)
At 31 December 2019	47,752	701,661	569,654	256,653	507,304	22,186	2,105,210
Accumulated depreciation							
At 1 January 2019	-	27,338	119,745	110,751	127,431	-	385,265
Charge for the year	-	14,581	42,772	53,368	72,341	-	183,062
Eliminated on disposals	-	-	-	(7,649)	-	-	(7,649)
Exchange differences	-	10	(140)	(278)	(805)	-	(1,213)
At 31 December 2019	-	41,929	162,377	156,192	198,967	-	559,465
Net carrying amount	47,752	659,732	407,277	100,461	308,337	22,186	1,545,745

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	506,892	393,692	81,450	334,696	1,316,730

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2020

	Freehold land	Buildings	Plant and Machinery	Motor vehicles	Fixtures, fittings and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation						
At 1 January 2020	47,752	698,658	284,070	191,637	363,877	1,585,994
Additions	10,920	6,966	47,688	8,207	55,300	129,081
Disposals	-	-	-	(3,150)	(702)	(3,852)
At 31 December 2020	58,672	705,624	331,758	196,694	418,475	1,711,223
Accumulated depreciation						
At 1 January 2020	-	40,427	51,375	112,086	119,989	323,877
Charge for the year	-	14,027	25,438	48,901	70,963	159,329
Eliminated on disposals	-	-	-	(2,387)	(317)	(2,704)
At 31 December 2020	-	54,454	76,813	158,600	190,635	480,502
Carrying Amount						
At 31 December 2020	58,672	651,170	254,945	38,094	227,840	1,230,721

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	Fixtures, fittings and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Carrying amount	501,456	241,361	26,898	254,197	1,023,912

If you like it... Crown it!

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2019

	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
Cost or valuation						
At 1 January 2019	32,152	684,740	242,255	164,170	255,886	1,379,203
Additions	15,600	13,918	41,815	29,847	107,991	209,171
Disposals	-	-	-	(2,380)	-	(2,380)
At 31 December 2019	47,752	698,658	284,070	191,637	363,877	1,585,994
Accumulated depreciation						
At 1 January 2019	-	26,594	30,848	68,814	65,557	191,813
Charge for the year	-	13,833	20,527	44,757	54,432	133,549
Eliminated on disposals	-	-	-	(1,485)	-	(1,485)
At 31 December 2019	-	40,427	51,375	112,086	119,989	323,877
Carrying Amount						
At 31 December 2019	47,752	658,231	232,695	79,551	243,888	1,262,117

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 KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Carrying amount	505,390	219,111	54,147	270,245	1,048,893

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2020 (continued)

No borrowing costs were capitalized during the year ended 31 December 2020 (2019: Nil)

The Kenya Commercial Bank Limited and NCBA Bank 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 along Dar Es Salaam road.

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 which has been estimated to approximate the fair value given that the subsidiaries have been at the formative stages. Management is in the process of carrying out a revaluation of the assets to assess for any impairment or revaluation gain if any.

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.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

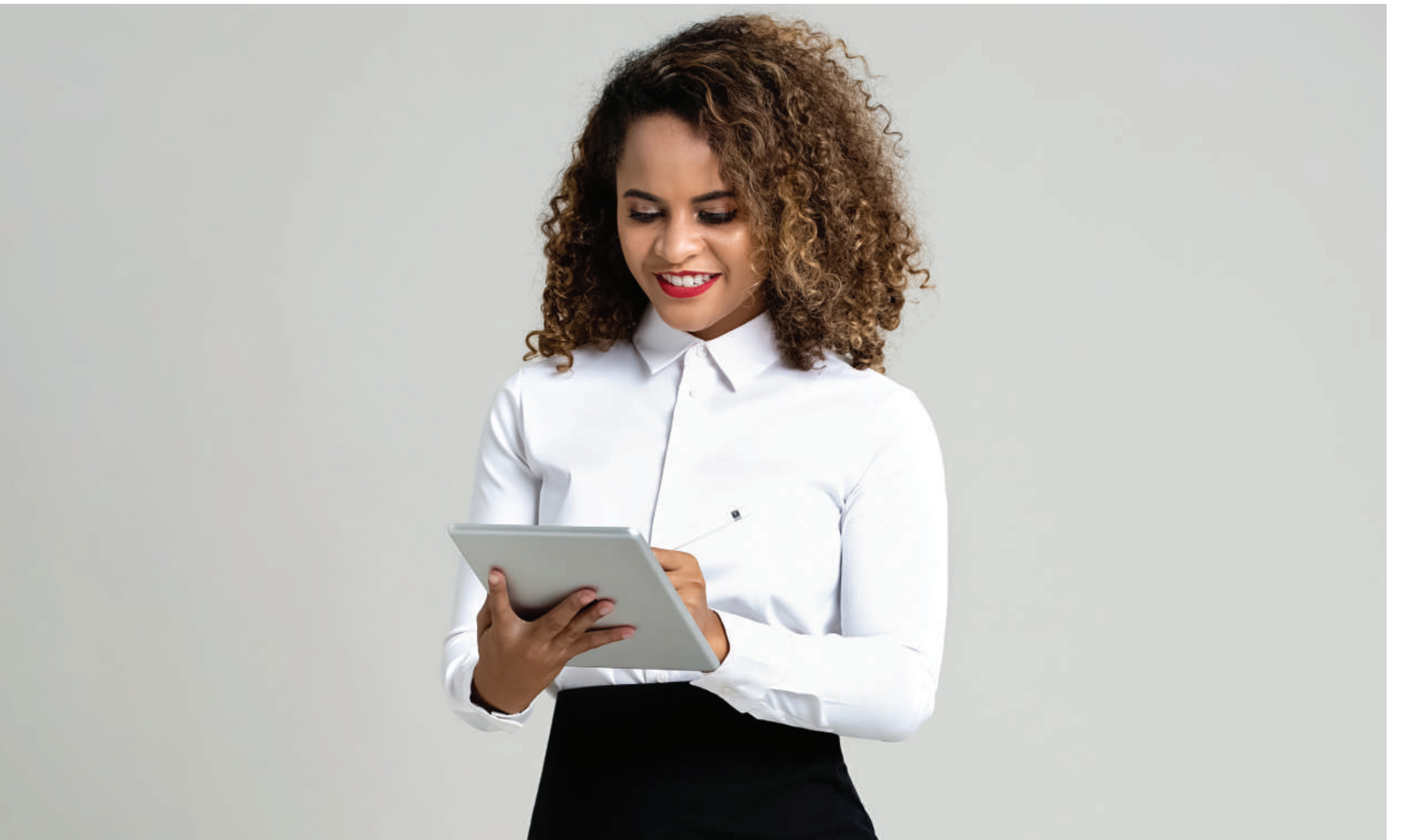
(c) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 ON THE COMPANY'S LAND HOLDING STATUS

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.

The Group has assessed the impact of the amended land laws, and concluded that they do not impact significantly on these financial statements. Under the International financial reporting standards BC78 (IFRS 16) Leases, a long-term lease of land (for example, a 99-year lease), the present value of the lease payments is likely to represent substantially all of the fair value of the land. The Group currently accounts for its land previously classified as freehold in a similar manner to accounting for the purchase of the land by applying international accounting standards (IAS 16) Property, Plant and Equipment, rather than by applying IFRS 16.

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



NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Cost				
At 1 January	195,030	167,872	178,724	153,146
Additions	26,320	27,106	25,720	25,578
Exchange difference	1,216	52	-	-
At 31 December	222,566	195,030	204,444	178,724
Amortisation				
At 1 January	144,611	130,367	133,377	121,933
Charge for the year	17,211	14,207	14,909	11,444
Exchange difference	903	37	-	-
At 31 December	162,725	144,611	148,286	133,377
Carrying Amount	59,841	50,419	56,158	45,347

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 2020 (2019: Nil)
No intangible assets have been pledged as security (2019: Nil).

5. RIGHT OF USE ASSETS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Cost				
At 1 January	338,584	244,288	182,548	134,358
Prepaid rent	-	7,183	-	-
Reclassified prepaid lease on land	-	13,000	-	13,000
Additions	112,562	74,363	105,064	35,190
Disposal	(26,207)	-	(24,115)	-
Exchange difference	10,525	(250)	-	-
At 31 December	435,464	338,584	263,497	182,548
Amortisation				
At 1 January	104,355	-	56,171	-
Reclassified from prepaid lease on land	-	5,566	-	5,566
Charge for the year	118,650	99,035	59,723	50,605
Disposals	(6,151)	-	(6,151)	-
Exchange difference	5,248	(246)	-	-
At 31 December	222,102	104,355	109,743	56,171
Carrying Amount	213,362	234,229	153,754	126,377
Amounts recognized in profit and loss				
Amortization expense on right-of-use assets (note 20,22 & 23)	118,650	99,035	59,723	50,605
Interest expense (note 24)	24,969	23,775	18,100	15,687

The identified right of use assets that the Group has leased are depots, showrooms, godowns and residential apartments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

5. RIGHT OF USE ASSETS (continued)

The Group has the right to obtain substantially all economic benefits from the use and also the right to direct the use of the assets. The Group will return the assets to the lessor at the end of lease term. The leases run from between 2 - 12 years and are therefore not short-term leases.

There are no low value assets. Non lease components are treated separately using the applicable Standards. There are no restrictions or covenants imposed by lessors and the Company did not enter into any sale and leaseback transactions during the year (2019: Nil).

The total cash outflow for leases amount to KShs 143 million (2019: KShs 108.8 million inclusive of service charge which has been expensed in current year) Group, Company KShs 70.9 million (2019: KShs 61 million inclusive of service charge which has been expensed in current year).

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:

	Country of incorporation	Activity	Holding %	2020 KShs'000	2019 KShs'000
Details of investment					
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.	Uganda	Selling of auto paints and decorative product	100	745,209	745,209
Crown Paints Tanzania Limited 75,413 ordinary shares of KShs 4,525 each, share premium 65,413 shares of KShs 6,603.	Tanzania	Selling of auto paints and decorative products	100	773,162	773,162
Crown Paints Rwanda Limited 10,521 ordinary shares of KShs 1,148 each, share premium 9,521 shares of KShs 1,6997 each.	Rwanda	Selling of auto paints and decorative products	100	173,914	173,914
				1,789,285	1,789,285
Provision for impairment in subsidiaries				(770,008)	(653,081)
				1,019,277	1,136,204

During the year ended 31 December 2020, an additional provision for impairment in subsidiaries has been made of KShs 116,927,000 (2019: KShs 653,081,000).

6. INVESTMENT IN SUBSIDIARIES (continued)

Impairment loss		2020 KShs'000	2019 KShs'000
At 1 January		653,081	-
Charge for the year		116,927	653,081
At 31 December		770,008	653,081

Year ended 31 December 2020

Impairment loss Subsidiary	Carrying amount KShs'000	Recoverable amount KShs'000	Impairment loss KShs'000
Regal Paints Uganda Limited	467,044	367,662	99,382
Crown Paints Tanzania Limited	398,246	385,637	12,609
Crown Paints Rwanda Limited	173,914	168,978	4,936
	1,039,204	922,277	116,927

Year ended 31 December 2019

Impairment loss Subsidiary	Carrying amount KShs'000	Recoverable amount KShs'000	Impairment loss KShs'000
Regal Paints Uganda Limited	745,209	467,044	278,165
Crown Paints Tanzania Limited	773,162	398,246	374,916
Crown Paints Rwanda Limited	173,914	209,704	-
	1,692,285	1,074,994	653,081

Inputs used:	Regal Pants Uganda Limited	Crown Paints Tanzania Limited	Crown Paints Rwanda Limited
Discount rate- weighted average cost of capital	14.95%	16.02%	14.09%
Control premium	20%	20%	20%
Terminal growth rate in perpetuity	8%	5%	5%

Regal Paints Uganda Limited, Crown Paints Rwanda Limited and Crown Paints Tanzania Limited 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.

During the year ended 31 December 2020, an impairment assessment was carried out by management and as tabulated above, the carrying amount of the three subsidiaries was higher than the recoverable amount. The recoverable amount of the CGU's for each entity is the value in use which was estimated using the discounted cash flows. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

6. INVESTMENT IN SUBSIDIARIES (continued)

Revenue growth was projected taking into account the average growth levels experienced over the past three years and the estimated sales volume and price growth for the next five years which also includes the company's marketing plans.

An impairment loss was recognised in the statement of profit of loss for the year then ended 31 December 2020.

The assumptions used includes the following;

Regal Paints Uganda Limited

Management anticipates a growth of 20% in 2020 and thereafter 12% up to 2025 due to;

- Expected annual price increases at 4%.
- No economic nor political factors will affect the projected volumes and sales growth below projections.
- Overheads will be absorbed at UGShs 300 per litre.
- Annual salaries will not increase 5%.
- Sales of Sadolin brand will improve in coming years which will in turn generate better tolling fee for Regal paints at 9% of raw materials and overheads.
  - The company will maintain 60 days of raw materials.
  - Debtors net outstanding days will gradually be reduced to 65 Days.
  - On average the credit days will be as well be 2.2 months considering shipping period and mix of local creditors.
- No negative impact from COVID 19 as has been the case in the last 9 months.

Crown Paints Tanzania Limited

- Management anticipates a modest growth of 25% in 2021, and thereafter 23% in 2022, 23% in 2023 and 20% 2024. In the macro-economics the growth in GDP is anticipated at 7%.
- An expected growth of 13% in the construction sector.
- Better internal controls, better production quality, cost saving in multiple fronts - Staff, factory overheads and stocking requirement and better planning and Supply Chain activity.
- Use of one distributor Sai in Dar re Salaam who has been handling the sales.
- Team Kubwa implemented in Year 2020. This will boost coming years sales.
- Raw materials cost will remain same or proportionate increase with an increase in sales price.

Crown Paints Rwanda Limited

- Management anticipates a growth of 31% in 2021 and thereafter 15% from 2022 to 2024. This is on the background of the construction sector growth which has grown tremendously in the last three years.
- Factory staff costs are considered to have a constant increase of 5% over the years. Factory depreciation remains constant in the fixed asset register as long as there are no disposals and acquisitions. Other costs of production and overheads are considered to have 1% increase across the years. Transport cost to depots given a consideration of 5% increase each year.
- Depot staff costs are considered to have a constant increase of 7% over the years.
- Audit fee was given a consideration of 2% across the years. Legal fee was considered to increase with 5% each year. Insurance is assumed to have a 10% increase each year. Other administration costs are considered to increase with 1% across the years.
- Transport cost was calculated using the budgeted volume and taking into consideration the cost per litre remained constant.
- Travel and entertainment, advertising and promotion and depot costs (security and rent) were given the assumption of 5% increase across the years. Other expenses were given an assumption of 1% while bank charges were considered to increase by 0.5% across the years.

7. INVENTORIES

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Finished goods and packaging materials	740,243	813,909	529,491	621,038
Raw materials	665,962	711,296	440,235	516,925
Goods in transit	530,819	342,551	530,904	335,976
Work In progress	44,944	50,124	18,103	19,852
	1,981,968	1,917,880	1,518,733	1,493,791
Inventories write-down to NRV	(73,571)	(64,725)	(65,285)	(61,513)
	1,908,397	1,853,155	1,453,448	1,432,278

The amount of inventories write-down reversed during the year was KShs. 24,707,000 (2019: KShs 23,008,000) for the Group and KShs. 24,448,000 (2019: KShs 17,501,000) for the Company, for inventories carried at net realisable value. This is recognised in other income, Note 21. Reversal of inventory write down occurs when inventory assessed as slow moving is used as input in production or is finally sold. Provision is normally based on the last movement day of the stock item which varies with subsequent sales or use.

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

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
At the beginning of the year	64,725	63,632	61,513	45,590
Provision for the year (note 23)	34,518	36,657	28,220	33,424
Used in the year – write off	(965)	(12,556)	-	-
Reversals of write-down (note 21)	(24,707)	(23,008)	(24,448)	(17,501)
	73,571	64,725	65,285	61,513

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

8. TRADE AND OTHER RECEIVABLES

Trade receivables	1,207,639	955,521	1,008,992	809,117
Other receivables	85,377	120,113	18,360	24,472
Prepayments	77,179	148,383	52,018	117,761
	1,370,195	1,224,017	1,079,370	951,350

The average credit period on sales of finished goods is 30 days. Other receivables consist of staff loans, staff floats and deposits with suppliers. Staff loans are issued to staff to purchase motor vehicles at an interest rate of 8%, for a period not exceeding 36 months. The staff loans are secured against the logbooks. 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 2020, the Group's trade receivables with initial value of KShs 639,085,000 (2019: KShs 886,483,000) were fully provided for. The Company's trade receivables with initial value of KShs 404,656,000 (2019: KShs 593,922,000) were fully provided for.

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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
At the beginning of the year	886,483	814,093	593,922	504,893
Charge for the year	59,634	259,778	56,666	221,372
Write off	(39,175)	(1,978)	-	-
Recoveries during the year	(267,857)	(185,410)	(245,932)	(132,343)
	639,085	886,483	404,656	593,922
Net movement				
Charge for the year	59,634	259,778	56,665	221,372
Recoveries during the year	(267,857)	(185,410)	(245,932)	(132,343)
	(208,223)	74,368	(189,267)	89,029
Ageing analysis of trade receivables:				
Less than 60 days	1,106,928	983,068	1,019,020	852,968
61 days to 90 days	102,326	128,184	55,441	93,985
Over 90 days	637,470	730,752	339,187	456,086
	1,846,724	1,842,004	1,413,648	1,403,039
Allowance for ECLs/impairment	(639,085)	(886,483)	(404,656)	(593,922)
Net	1,207,639	955,521	1,008,992	809,117

8. TRADE AND OTHER RECEIVABLES (continued)

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

Ageing analysis for other receivables:

	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Less than 60 days	70,284	63,786	3,342	3,210
61 days to 90 days	325	1,936	325	823
Over 90 days	15,015	54,391	14,940	20,439
	85,624	120,113	18,607	24,472
Impaired	-	-	-	-
Net	85,624	120,113	18,607	24,472

The decrease in Group's other receivables is mainly due to repayment of staff loans during the year. Given the nature of the receivables and the fact that they are recovered through payroll, then no ECL has been recognised.

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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Receivables from related companies:				
Crown Paints and Building Products Limited	531,327	386,363	531,327	386,363
Regal Paints Uganda Limited	-	-	101,572	123,222
Crown Paints Allied Industries Limited	-	-	11,185	2,719
Crown Paints Rwanda Limited	-	-	3,850	37,335
Crown Paints Tanzania Limited	-	-	392,416	271,633
	531,327	386,363	1,040,350	821,272
Provision for expected credit loss	(427,191)	(298,686)	(864,649)	(710,377)
	104,136	87,677	175,701	110,895

As at 31 December 2020, the Group's related party receivables with initial value of KShs 427,191,000 (2019: KShs 298,686,000) were fully provided for. The Company's related party receivables with initial value of KShs 864,649,000 (2019: KShs 710,377,000) were fully provided for.

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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
At the beginning of the year	298,686	444,180	710,377	738,040
Provision for expected credit losses	131,631	13,262	231,862	143,385
Recoveries during the year	(3,126)	(158,756)	(77,590)	(171,048)
	427,191	298,686	864,649	710,377
Expected credit losses net movement				
Provision for expected credit losses	131,631	13,262	231,862	143,385
Recoveries during the year	(3,126)	(158,756)	(77,590)	(171,048)
	128,505	(145,494)	154,272	(27,663)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

Ageing analysis	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Less than 60 days	109,686	57,841	161,813	98,978
61 days to 90 days	6,046	-	57,085	6,608
Over 90 days	415,595	328,522	821,452	715,686
	531,327	386,363	1,040,350	821,272
Impaired	(427,191)	(298,686)	(864,649)	(710,377)
Neither past due nor impaired	104,136	87,677	175,701	110,895
(ii) Payables to related companies:				
Crown Paints Allied Industries Limited	-	-	17,387	2,852
Daxian Limited	9,815	1,018	9,815	1,018
Regal Paints Uganda Limited	-	-	284	-
Crown Paints and Building Products Limited	34,204	15,480	16,393	15,480
Crown Paints Tanzania Limited	-	-	6,022	23,011
	44,019	16,498	49,901	42,361
(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	30,294	4,261
Crown Paints Rwanda Limited	-	-	74,412	74,499
Regal Paints Uganda Limited	-	-	122,723	163,255
Crown Paints Tanzania Limited	-	-	81,112	96,008
Purchase of goods:				
Crown Paints Allied Industries Limited	-	-	73,198	36,743
Regal Paints Uganda Limited	-	-	17,571	26,037
Crown Paints Tanzania Limited	-	-	-	11,894
Crown Paints Rwanda Limited	-	-	16,009	3,242
Services rendered:				
Crown Paints and Building Products Limited	5,700	98,970	5,700	98,970
Daxian Limited	107,991	101,336	107,991	101,336

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

9.. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
(iv) Key management personnel compensation				
Short term employee benefits	243,917	258,068	243,917	258,068
Defined contribution plan	4,161	4,702	4,161	4,702
	248,078	262,770	248,078	262,770
(v) Directors' remuneration				
Fees for services as directors	9,667	8,183	9,667	8,183
Other emoluments (included in key management personnel compensation above)	146,762	146,016	146,762	146,016
	156,429	154,199	156,429	154,199
Loans to related parties				
Crown Paints and Building Products Limited	86,485	65,025	86,485	65,025
Movement in loans to CPBL:				
At beginning of the year	65,025	65,152	65,025	65,152
Loans issued during the year	213,358	320,029	213,358	320,029
Repayments made during the year	(191,898)	(320,156)	(191,898)	(320,156)
As at 31 December	86,485	65,025	86,485	65,025
(vi) Short-term note due to related parties				
Directors	361,459	305,039	361,459	305,039

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

Terms and conditions of transactions with related parties:

The short-term notes due to related parties are at an interest rate of 12% for a period of 91 days. The other amounts due from and due to related parties are non-interest bearing and unsecured. There is no fixed repayment schedule for the amounts due.

10. TAXATION

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(7,496)	(43,744)	20,220	(21,718)
Amount recovered	8,567	-	-	-
Charge for the year	246,769	225,625	244,320	224,014
Paid during the year	(352,214)	(189,377)	(339,671)	(182,076)
Current tax recoverable (recoverable)/payable	(104,374)	(7,496)	(75,131)	20,220
The amount has been presented in the statement of financial position as follows;				
Current tax payable	-	20,220	-	20,220
Current tax recoverable	(104,374)	(27,716)	(75,131)	-
Net amount	(104,374)	(7,496)	(75,131)	20,220
PROFIT OR LOSS				
Current tax at 25% (30%: 2019) on the taxable profit for the year	246,769	225,625	244,320	224,014
Deferred tax expense/(credit) (note 14)	16,612	(20,674)	16,612	(20,674)
	263,381	204,951	260,932	203,340
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	862,886	527,974	680,169	36,235
Tax at applicable rate of 25% (30% in 2019)	215,721	158,392	170,042	10,870
Tax effect on items not eligible for tax purposes	52,445	(38,803)	88,119	192,470
Change in tax rate	2,771	-	2,771	-
Minimum tax liability- Tanzania	2,449	1,611	-	-
Tax impact on profit/(loss) before tax on subsidiaries	(10,005)	83,751	-	-
	263,381	204,951	260,932	203,340

On 25 March 2020, in response to the global pandemic, His Excellency President Uhuru Kenyatta announced temporary stimulus package which was designed to help the country through the current COVID-19 crisis. His announcements included tax, economic, monetary adjustments to cushion the country against the adverse effects of the pandemic. Such incentives included:

- Tax reliefs on a gross monthly income KES 24,000 for individuals and employees
- Reduction in the corporation tax rates from 30% to 25%.
- Reduction in the VAT rate from 16% to 14%.

The rates introduced in April 2020 through the stimulus package were reversed through changes of tax rates introduced through the Tax Laws (Amendment) No. 2 Act of 2020 which was published on 24th December, 2020 with respect to employment income, Corporation Tax, and Legal Notice No. 206 of 2020 on Value Added Tax. The corporation tax rate reverted to 30%, VAT to 16% effective 1 January 2021. The company has used the 25% in the computation of the income tax for the year ended 31 December 2020 and 30% in computing the deferred tax given that it is a future tax and the rates had reverted to 30%. The tax rates applicable for subsidiaries in Uganda, Rwanda and Tanzania have the income tax rates at 30% for both 2019 and 2020 financial year ends.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

10. TAXATION (continued)

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Tax effect on items not eligible for tax purposes can be summarised as follows:				
Depreciation	494	639	494	234
Amortization intangible assets	317	-	-	-
Amortization on leasehold land	66	80	66	80
Staff benevolent costs	88	332	85	329
Consultancy fee	2,415	-	2,415	-
Stamp duty	1,157	-	1,157	-
Bad debts written off	11,954	4	2,449	36
Interest expenses	4,535	-	-	-
Donations	74	116	34	116
Sponsorship	667	2,348	657	2,112
Fines and penalties	7,800	312	7,637	154
School fees	1,454	2,158	1,237	1,939
Inventory written off	465	759	-	-
Sales and promotion	656	-	-	-
Corporate social responsibility	245	156	245	156
Pension scheme administration costs	808	1,116	808	1,116
Company staff program	1,309	3.001	130	366
Excess pension contribution	2,717	3,021	2,717	3,021
Provision for amount owing from subsidiaries	32,126	(43,649)	38,568	(8,299)
Rebates	-	(5,105)	-	(5,105)
Electricity rebate	-	(2,178)	-	(2,154)
Valuation fees	188	114	188	114
Trademark registration expenses	-	2,435	-	2,435
Club membership subscriptions	-	103	-	103
Impairment loss on investment in subsidiaries	-	-	29,232	195,923
	69,535	(34,238)	88,119	192,676

11. SHARE CAPITAL

	GROUP & COMPANY	
	2020	2019
	KShs'000	KShs'000
Authorised:		
71,181,000 (2019: 71,181,000) ordinary shares of KShs 5 each	355,905	355,905
Issued and fully paid:		
71,181,000 (2019: 71,181,000) ordinary shares of KShs 5 each	355,905	355,905

12. RESERVES

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	43,493	61,591	84,219	102,317
Foreign currency translation reserve	89,506	86,811	-	-
Retained earnings	1,340,432	722,829	1,836,035	1,398,699
	1,553,605	951,405	2,000,428	1,581,190

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	
	2020	2019
	KShs'000	KShs'000
Dividend paid		
Final dividend for 2019 KShs. Nil per share (2018: KShs. 0.60 per share)	-	42,709
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares KShs: Nil (2019: Nil) per share	-	-

(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 (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

14. DEFERRED TAX ASSET

Movements in deferred tax during the year were as follows:

	Balance at 1 January KShs'000	Profit or loss KShs'000	Balance at 31 December KShs'000
Year ended 31 December 2020			
Accelerated capital allowances	112,012	(7,294)	104,718
Unrealised exchange loss	-	(4,773)	(4,773)
Unrealised exchange gain	1,496	(1,496)	-
Revaluation reserve	37,229	(5,429)	31,800
Allowance for doubtful debts – third parties	(178,175)	56,780	(121,395)
Provisions for staff leave	(5,194)	806	(4,388)
Provisions for contingent liability	(4,705)	2,330	(2,375)
Provision for obsolete inventories	(18,453)	(1,131)	(19,584)
Provision for penalties	-	(23,181)	(23,181)
	(55,790)	16,612	(39,178)
Year ended 31 December 2019			
Accelerated capital allowances	99,133	12,879	112,012
Unrealised exchange loss	(5,651)	5,651	-
Unrealised exchange gain	6,012	(4,516)	1,496
Revaluation reserve	43,016	(5,787)	37,229
Allowance for doubtful debts – third parties	(151,466)	(26,709)	(178,175)
Provisions for staff leave	(10,109)	4,915	(5,194)
Provisions for contingent liability	(2,375)	(2,330)	(4,705)
Provision for obsolete inventories	(13,676)	(4,777)	(18,453)
	(35,116)	(20,674)	(55,790)

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting KShs 323,720,756 (2019: KShs 333,815,884) 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 1,079,069,187 (2019: KShs 1,112,719,613) 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 131,152,125 (2019: KShs 214,836,041).

14. DEFERRED TAX ASSET (Continued)

In accordance with the Kenyan Income Tax Act, Crown Paints Allied Industries Limited 2018 tax loss of KShs. 11,193,279 are available for utilization until 31 December 2027.

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) 2017 tax loss amounting to KShs. 24,066,028 expires on 31 December 2022.
b) 2018 tax loss amounting to KShs. 23,289,326 expires on 31 December 2023.

15. BANK OVERDRAFT

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Bank overdraft	30,291	53,550	30,291	53,550

The bank overdraft facility is to the extent of: Kenya Commercial Bank Limited (KCB) - KShs 400 million and USD 300,000 and NCBA Bank - KShs 110 million and USD 1,000,000 letters of guarantee/ letters of credit/ import bill financing.

The KCB and NCBA 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% (2019: 13%), while letters of guarantee had a weighted average interest rate of - 9.69%. The bank overdrafts are reviewed annually and are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

16. BANK LOANS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Long term loans:				
KCB Loan-Kenya	342,067	367,823	342,067	367,823
KCB Loan – Uganda	-	7,526	-	-
I&M Loan – Uganda	75,326	80,688	-	-
I&M Loan – Tanzania	34,725	36,164	-	-
NIC Bank Tanzania Limited	305	1,272	-	-
Alliance Finance Corporation Limited	2,622	4,787	-	-
Akzo Nobel Loan – Tanzania	-	133,455	-	-
	455,045	631,715	342,067	367,823
Short term borrowings:				
CBA IPF facility	141,247	111,927	141,247	111,927
KCB IPF facility	211,030	318,140	211,030	318,140
	352,277	430,067	352,277	430,067
Total bank loans	807,322	1,061,782	694,344	797,890
Due within 1 year	430,234	623,000	411,113	467,552
Due after 1 year	377,088	438,782	283,231	330,338
Movements during the year:				
At 1 January	1,061,782	1,211,294	797,890	900,680
Additional loan received	1,078,706	1,395,116	1,078,706	1,388,615
Accrued interest	107,893	126,151	84,707	98,338
Interest payments	(99,825)	(126,151)	(84,707)	(98,338)
Loan repayments	(1,371,587)	(1,545,171)	(1,206,182)	(1,491,405)
Foreign exchange difference	30,353	543	23,930	-
At 31 December	807,322	1,061,782	694,344	797,890

The amount due within one year relates to post import financing from Kenya Commercial Bank Limited and NCBA Bank 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.

16. BANK LOANS (continued)

The weighted average interest rate on the loans at year-end was 13% (2019: 13%). The amount due in 1 year also includes the current portion of the long-term loans due within 12 months amounting to KShs 78 million (2019: KShs 193 million) for the group, company KShs 59 million (2019: 37.5 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 77 months and 48 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 24 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 48 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 12 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 48 months consecutive monthly instalments inclusive of interest and other charges. The loan is secured by fixed and floating debenture of 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 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.

17. SHORT TERM NOTES

	GROUP & COMPANY	
	2020	2019
	KShs'000	KShs'000
Amounts falling due within one year	510,881	1,033,212
Movement in the year:		
At 1 January	1,033,212	1,105,756
Additional loan received	55,063	968,488
Accrued interest	42,527	140,831
Interest payments	(42,527)	(140,831)
Loan repayments	(636,666)	(1,041,032)
At 31 December	510,881	1,033,212

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 91 days period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Amounts falling due within one year				
Trade payables	1,692,357	1,505,803	1,420,665	1,245,232
Other payables	106,581	132,765	65,722	102,339
Accruals	314,914	140,919	238,932	98,466
	2,113,852	1,779,487	1,725,319	1,446,037

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	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Following revenue arose from sale of goods:				
Decorative paints	7,387,277	6,930,054	6,968,444	6,584,590
Industrial paints	1,138,919	1,059,951	1,041,524	949,587
Automotive paints	385,236	369,202	150,361	180,158
Adhesives	280,272	244,445	240,866	215,686
	9,191,704	8,603,652	8,401,195	7,930,021

Revenue from the sale of the paint is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the paint at the customer's location. Refer to note 34 for revenue information based on locations per customers.

20. COST OF SALES

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Raw materials	4,787,006	4,713,734	4,403,343	4,313,461
Salaries and wages	216,823	257,958	180,271	224,180
Depreciation on plant and machinery	62,948	56,471	39,465	34,360
Machinery repairs and maintenance	42,082	41,129	38,481	37,201
Fuel, water and electricity	26,934	27,951	18,150	18,482
Safety & environmental costs	43,756	41,201	42,793	40,244
Technical consultancy	74,151	25,534	73,923	25,534
Amortization on right of use asset	6,453	2,103	-	-
Transport costs	1,424	3,566	1,321	3,276
Factory rent	2,942	7,479	-	-
Others	7,955	8,550	2,438	2,774
	5,272,474	5,185,676	4,800,185	4,699,512

21. OTHER INCOME

Gain on disposal of property and equipment	1,292	3,388	-	435
Gain on lease termination	6,543	-	6,543	-
Interest income	11,122	12,217	876	1,067
Miscellaneous income	134,448	130,342	64,332	98,751
Operating lease revenue	28,161	13,501	27,160	12,336
Decrease in provision for leave	2,687	14,068	2,687	14,062
Reversal of inventory write down (note 7)	24,707	23,008	24,448	17,501
Foreign exchange gain	57,469	70,879	10,009	39,476
Decrease in provision for contingent liability (note 29)	7,765	-	7,765	-
Rent concession (note 30)	2,293	-	1,858	-
Surcharge sales	1,030	6,904	1,029	6,902
Tolling fees	39,734	26,425	-	-
	317,251	300,732	146,707	190,530

Miscellaneous income relates to income earned from apply and supply services which is recognised when all the contractual obligations have been met usually upon completion of the paint job. Also included in the income is reversal of accruals no longer required and sale of scrap materials.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Staff costs (Note 25)	1,059,050	1,096,615	905,116	910,188
Depreciation on property and equipment	148,405	126,591	119,864	99,189
Auditors' remuneration	13,406	12,023	7,599	7,169
Directors' emoluments:				
As directors	9,667	8,183	9,667	8,183
As executives	142,060	141,314	142,060	141,314
Legal and professional fees	56,363	51,423	49,279	46,236
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	17,211	14,207	14,909	11,444
Insurance	52,332	56,067	42,381	44,625
Loss on disposal of property and equipment	137	-	137	-
Foreign exchange loss	127,827	76,174	107,813	39,907
Office expenses	54,422	49,174	47,395	41,983
Consultancy fees	239,941	44,758	227,802	24,623
Computer costs	65,952	53,525	61,544	47,476
Travel	45,025	31,546	38,543	10,409
Maintenance, subscriptions and donations	21,682	20,151	19,743	16,096
Bank charges	27,232	37,513	23,304	33,957
Others	75,231	21,400	66,836	15,060
	2,156,208	1,840,929	1,884,257	1,498,124

23. SELLING AND DISTRIBUTION EXPENSES

Transport	263,570	297,139	217,892	228,322
Advertising and promotion	474,420	498,954	439,271	449,676
Inventory write-downs (note 7)	34,518	36,657	28,220	33,424
Bad debts written off during the year	21,825	6,649	9,801	149
Depot expenses	135,900	167,499	123,398	129,741
Amortization on right of use asset	111,932	96,667	59,458	50,340
Others	12,974	12,012	11,406	11,128
	1,055,139	1,115,577	889,446	902,780

24. FINANCE COSTS

Interest on loans and overdraft	115,198	140,748	92,013	112,935
Interest on lease liability	24,969	23,775	18,100	15,687
Interest on short term notes	101,799	140,831	101,799	140,831
	241,966	305,354	211,912	269,453

25. STAFF COSTS

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Salaries and wages	858,739	882,028	736,528	741,666
Defined contribution plan	13,077	13,650	3,232	3,721
Medical benefits	14,965	13,368	12,855	7,496
Insurance	99,300	82,310	88,901	74,672
Staff general costs	59,960	75,289	51,966	60,796
Training and development	13,009	29,970	11,634	21,837
Staff costs (Note 22)	1,059,050	1,096,615	905,116	910,188
Salaries and wages (Note 20)	216,823	257,958	180,271	224,180
Total staff costs	1,275,873	1,354,573	1,085,387	1,134,368

26. PROFIT BEFORE TAX

The profit before tax is stated after charging: -				
Depreciation of property, plant & equipment (Note 3)	211,125	183,062	159,329	133,549
Amortisation of right of use (Note 5)	118,650	99,035	59,723	50,605
Amortisation of intangible assets (Note 4)	17,211	14,207	14,909	11,444
Directors' emoluments:				
As directors (Note 22)	9,667	8,183	9,667	8,183
As executives (Note 22)	142,060	141,314	142,060	141,314
Auditors' remuneration (Note 22)	13,406	12,023	7,599	7,169
Loss on disposal of property, plant and equipment (Note 22)	137	-	137	-
Finance costs (Note 24)	241,966	305,354	211,912	269,453
Foreign exchange loss (Note 22)	127,827	76,174	107,813	39,907
And after crediting: -				
Interest income (Note 21)	11,122	12,217	876	1,067
Operating lease income (Note 21)	28,161	13,501	27,160	12,336
Gain on disposal of property, plant and equipment (Note 21)	1,583	3,388	-	435
Foreign exchange gain (Note 21)	57,469	70,879	10,009	39,476

27. BASIC AND DILUTED EARNINGS PER SHARE

Net profit attributable to ordinary shareholders (KShs'000)	599,505	323,023	419,238	(167,105)
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 2020 and as at 31 December 2019.

28. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Cash and cash equivalents	334,139	442,793	242,339	349,837
Bank overdraft (Note 15)	(30,291)	(53,550)	(30,291)	(53,550)
	303,848	389,243	212,048	296,287

29. PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

(i) 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 three 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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Within 1 year	11,919	11,724	11,919	11,724
Within 5 years	13,971	25,890	13,971	25,890
	25,890	37,614	25,890	37,614

b) Provisions

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. Provisions are recognised when the group has a present obligation as a result of a past event, 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. Of the KShs 31 million estimate, KShs 7.9 million has been provided for (2019: KShs 15.7 million.

	GROUP & COMPANY	
	2020 KShs'000	2019 KShs'000
At 1 January	15,680	7,915
Reversal of provision (note 21)	(7,765)	-
Provision during the year	-	7,765
At 31 December	7,915	15,680

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

c) The Group's capital commitments as at year end were nil (2019: Nil).

d) Bank facilities

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Letters of credit	-	1,610	-	1,610
Avalised bills	28,136	20,501	28,136	20,501
Documentary collections	248,462	132,547	248,462	132,547
Guarantees given by bankers	4,472	1,340	4,472	1,340
	281,070	155,998	281,070	155,998

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.

e) Contingent liabilities

The parent company received additional corporate tax assessments relating to the financial years 2015, 2016, 2017 and 2018 totalling KShs 263,313,227 and interest on the incremental tax liability of KShs 29,978,217 from Kenya Revenue Authority (KRA). The Company has objected the additional assessment in a letter dated 1 March 2021 noting that the additional amount assessed are essentially tax paid by the Company in the same period. KRA has disallowed the payments because the Company declared them in the wrong slot in the self-assessment return. However, the payments were received by KRA and it is a reconciliation issue.

The Company also received a VAT automated assessment relating to input VAT claimed by the Company for the period January to May 2018 that would not be matched by the corresponding output VAT declared by the seller. The principal amount totals KShs 103,091,641 and penalties and interest KShs 32,005,004. The full amount was disputed, and an objection filed by the company in July, 2020.

Crown Paints Allied Industries Limited received a VAT automated assessment relating to input VAT claimed in the May 2018 VAT return. The principal amount totals KShs 796,098 and penalties and interest KShs 48,300. The Company objected the full amount, but the objection was not allowed by KRA. The matter was appealed at the Tax Appeals Tribunal on 03rd July 2020 and awaits determination.

Regal Paints Uganda Limited received an assessment of UShs 3,741,720,936 relating to Customs assessment for the period January 2017 to December 2019. The Company objected to the assessment but has paid 30% of the tax in dispute UShs 1,122,516,281 on 17 February 2021. The matter was appealed at the Tax Appeals Tribunal on 23 February 2021 and awaits determination. The deposit payment of 30% with Uganda Revenue Authority of the amount in dispute is as per the requirement by the Uganda tax law whenever a dispute is taken to the Tax Appeals Tribunal.

Crown Paints Tanzania Limited received an assessment of TZShs 165,439,390 relating to income tax for the financial year 2017, withholding tax assessment amounting TZShs 21,277,073 for the financial year 2017 and VAT assessment amounting TZShs 238,726,925 for the financial year 2016. The Tanzania Revenue Authority recovered TZShs 102,814,700 relating to VAT on 1 December 2020, but the company is following up on recovering the amount from the

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

e) Contingent liabilities (continued)

authority given the matter has been appealed. The Company objected the full amount, but the objection was not allowed by Tanzania Revenue Authority. The matter was appealed at the Tax Revenue Appeals Board on 20 August 2020 and awaits determination.

As per management's evaluation, the appeals/objections are more likely than not, to be determined in favour of the respective entities, and therefore no provision has been made in the financial statements.

30. LEASE LIABILITY

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	233,802	244,288	124,150	134,358
Additions	112,562	74,363	105,064	35,190
Interest charge (note 24)	24,969	23,775	18,100	15,687
Exchange difference	7,671	154	-	-
Rent concession	(2,293)	-	(1,858)	-
Lease terminations	(26,595)	-	(24,503)	-
Payments during the year	(143,044)	(108,778)	(70,860)	(61,085)
At 31 December	207,072	233,802	150,093	124,150
Non-current	127,132	137,251	106,889	83,002
Current	79,940	96,551	43,204	41,148
Total	207,072	233,802	150,093	124,150

The entity has applied the practical expedient to all rent concessions that meet the conditions. The amount recognised in profit or loss for the period ended 31 December 2020 to reflect the changes in the lease payments that arose from rent concessions to which the lessee applied the practical expedient amounts to KShs 2,293,000 for the group and KShs 1,858,000 for the company.

31. 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, amounts due from related parties and cash and short-term deposits, which arise directly from its operations.

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets measured at amortised cost				
Cash and cash equivalents	334,139	442,793	242,339	349,837
Trade and other receivables	1,213,440	1,032,084	1,012,889	833,589
Amounts due from related companies	104,136	87,677	175,701	110,895
	1,651,715	1,562,554	1,430,929	1,294,321
Financial liabilities measured at amortised cost				
Bank overdraft	30,291	53,550	30,291	53,550
Bank loans	807,322	1,061,781	694,344	797,890
Short term notes	510,881	1,033,212	510,881	1,033,212
Amounts due to related companies	44,019	16,498	49,901	42,361
Trade and other payables	2,024,730	1,674,328	1,676,777	1,369,313
	3,417,243	3,839,369	2,962,194	3,296,326

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. 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 is minimal as its borrowings are pegged to bank's base rate. The base rate does not vary significantly over time.

	NCBA	KCB
Bank overdraft KShs	Base rate plus 4% p.a.	Base rate minus 1% p.a.
Bank overdraft USD	Base rate plus 1.5%	Variable base rate
Bank loan KShs	Base rate minus 1% p.a.	Base rate minus 1% p.a.
Bank loan USD	Base rate plus 1.5% p.a.	Variable base rate

Currently, the NCBA and KCB KShs base lending rates are 9% and 13% respectively. NCBA USD base lending rate is 8.0% and KCB 9.475%. The interest on the short-term note is at 91 day treasury bills interest rate plus 1.5%.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2020	Increase by 2%	26,634	20,227	24,105	18,533
	Decrease by 2%	(26,634)	(20,227)	(24,105)	(18,533)
2019	Increase by 2%	41,900	29,330	36,622	25,635
	Decrease by 2%	(41,900)	(29,330)	(36,622)	(25,635)

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The amounts that best represent the Group's and company's maximum exposure to credit risk as at 31 December 2020 were as follows:

GROUP

As at 31 December 2020	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,106,928	102,326	637,470	(639,085)	1,207,639
Other receivables	70,283	325	14,769	-	85,377
Amount due from related companies	109,686	6,046	415,595	(427,191)	104,136
Bank balances and cash	333,229	-	-	-	333,229
	1,620,126	108,697	1,067,834	(1,066,276)	1,730,381

The Group's credit risk exposure as demonstrated by the provision matrix is tabulated below.

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	4%	14%	31%	50%	88.69%	
Estimated total gross carrying amount - third party	834,704	272,224	102,326	76,279	561,191	1,846,724
Expected credit loss	33,388	38,112	31,721	38,140	497,724	639,085

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies						
Expected credit loss rate (%)	49%	49%	53%	48%	90%	
Estimated total gross carrying amount - related parties	100,106	9,580	6,046	7,443	408,152	531,327
Expected credit loss	49,052	4,694	3,205	3,573	366,667	427,191

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

COMPANY

As at 31 December 2020

	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,019,020	55,441	339,186	(404,656)	1,008,991
Other receivables	3,342	325	14,693	-	18,360
Amount due from related companies	161,814	57,085	821,451	(864,649)	175,701
Bank balances and cash	241,724	-		-	241,724
	1,425,900	112,851	1,175,330	(1,269,305)	1,444,776

As at 31 December 2020	<30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	4%	14%	23%	50%	100%	
Estimated total gross carrying amount - third party	794,083	224,937	55,441	20,851	318,336	1,413,648
Expected credit loss	31,763	31,491	12,642	10,426	318,334	404,656

As at 31 December 2020	<30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies						
Expected credit loss rate (%)	15%	49%	53%	48%	100%	
Estimated total gross carrying amount - related parties	123,792	38,021	57,085	46,093	775,359	1,040,350
Expected credit loss	18,279	18,631	30,255	22,125	775,359	864,649

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK

The amounts that best represent the Group's and company's maximum exposure to the credit risk as at 31 December 2019 were as follows:

GROUP:

As at 31 December 2019	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Total KShs'000
Trade receivables	816,449	69,219	69,853	955,521
Other receivables	63,786	1,936	54,391	120,113
Amount due from related companies	57,841	-	29,836	87,677
Bank balances and cash	441,553	-	-	441,553
	1,379,629	71,155	154,080	1,604,864

As at 31 December 2019	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	13%	29%	46%	72%	94%	
Estimated total gross carrying amount - third party	740,437	242,632	128,184	131,605	599,146	1,842,004
Expected credit loss	96,257	70,363	58,965	94,756	566,142	886,483
	644,180	172,269	69,219	36,849	33,004	955,521

As at 31 December 2019	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies						
Expected credit loss rate (%)	-	0%	0%	0%	92%	
Estimated total gross carrying amount - related parties	48,583	9,258	-	4,516	324,005	386,362
Expected credit loss	-	-	-	-	298,685	298,685
	48,583	9,258	-	4,516	25,320	87,677

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

COMPANY:

As at 31 December 2019	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Total KShs'000
Trade receivables	708,682	51,042	49,393	809,117
Other receivables	3,210	823	20,439	24,472
Amount due from related companies	67,557	396	42,942	110,895
Bank balances and cash	349,218	-	-	349,218
	1,128,667	52,261	112,774	1,293,702

As at 31 December 2019	<30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	13%	29%	46%	72%	94%	
Estimated total gross carrying amount - third party	662,951	190,017	93,985	97,623	358,463	1,403,039
Expected credit loss	88,655	55,631	42,943	70,476	336,217	593,922
	574,296	134,386	51,042	27,147	22,246	809,117

As at 31 December 2019	<30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies						
Expected credit loss rate (%)	-	92%	94%	94%	94%	
Estimated total gross carrying amount - related parties	64,793	34,185	6,608	50,135	665,551	821,272
Expected credit loss	-	31,421	6,212	47,127	625,617	710,377
	64,793	2,764	396	3,008	39,934	110,895

32. 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	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies				
Trade and other receivables	60,839	8,796	44,763	8,796
Cash and bank balances	9,204	41,463	6,717	33,665
Foreign currency assets	70,043	50,259	51,480	42,461
Liabilities in foreign currencies				
Bank overdrafts	-	(13,509)	-	(13,509)
Payables	(966,989)	(813,197)	(875,501)	(676,779)
Bank loans	(462,329)	(680,372)	(352,277)	(430,067)
Foreign currency liabilities	(1,429,318)	(1,507,078)	(1,227,778)	(1,120,355)
Net foreign currency liability position	(1,359,275)	(1,456,819)	(1,176,298)	(1,077,894)

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

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

		GROUP		COMPANY	
USD		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
2020	Increase inUS$ by 4$	(54,371)	(40,778)	(47,052)	(35,289)
	Decrease inUS$ by 4$	54,371	40,778	47,052	35,289
2020	Increase inUS$ by 4$	(58,273)	(40,791)	(43,116)	(30,181)
	Decrease inUS$ by 4$	58,273	40,791	43,116	30,181

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

32. 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 2020							
Financial liabilities							
Bank overdraft	(30,291)	-	-	-	-	-	(30,291)
Lease liability	(8,792)	(17,817)	(4,135)	(7,949)	(69,940)	(180,236)	(288,869)
Bank loans	(150,028)	(36,818)	(30,689)	(45,833)	(225,397)	(485,111)	(973,876)
Short term notes	(153,609)	(253,882)	(109,868)	-	-	-	(517,359)
Trade payables	(949,704)	(263,185)	(134,916)	(46,892)	(243,789)	-	(1,638,486)
Other payables	(34,422)	-	-	-	-	-	(34,422)
Accruals	(243,362)	-	-	-	-	-	(243,362)
Amounts due to related companies	(11,202)	(15,784)	(3,890)	(5,048)	(8,095)	-	(44,019)
Total financial liabilities	(1,581,410)	(587,486)	(283,498)	(105,722)	(547,221)	(665,347)	(3,770,684)

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 2019							
Financial liabilities							
Bank overdraft	(53,550)	-	-	-	-		(53,550)
Lease liability	(12,262)	(12,004)	(11,735)	(11,454)	(67,477)	(159,273)	(274,205)
Bank loans	(85,681)	(146,777)	(180,586)	(118,228)	(168,307)	(620,444)	(1,320,023)
Short term notes	(709,782)	(238,489)	(78,834)	-	(38,714)	-	(1,065,819)
Trade payables	(897,535)	(276,950)	(145,176)	(88,956)	(97,187)	-	(1,505,804)
Other payables	(21,622)	-	(466)	(2,087)	(23,861)	-	(48,036)
Accruals	(120,489)	-	-	-	-	-	(120,489)
Amounts due to related companies	(14,282)	(2,163)	-	-	(53)	-	(16,498)
Total financial liabilities	(1,915,203)	(676,383)	(416,797)	(220,725)	(395,599)	(779,717)	(4,404,424)

32. 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 2020							
Financial liabilities							
Bank overdraft	(30,291)	-	-	-	-	-	(30,291)
Bank loans	(146,454)	(33,244)	(27,115)	(41,674)	(197,974)	(368,068)	(814,529)
Short term notes	(153,609)	(253,882)	(109,868)	-	-	-	(517,359)
Trade payables	(905,766)	(232,754)	(120,884)	(15,648)	(91,741)	-	(1,366,793)
Other payables	(31,806)	-	-	-	-	-	(31,806)
Accruals	(169,718)	-	-	-	-	-	(169,718)
Lease liabilities	(5,158)	(14,183)	(501)	(4,316)	(40,870)	(153,125)	(218,153)
Amounts due to related companies	(11,202)	(21,666)	(3,890)	(5,048)	(8,095)	-	(49,901)
Total financial liabilities	(1,454,004)	(555,729)	(262,258)	(66,686)	(338,680)	(521,193)	(3,198,550)

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 2019							
Financial liabilities							
Bank overdraft	(53,550)	-	-	-	-	-	(53,550)
Bank loans	(68,532)	(117,794)	(142,929)	(70,686)	(112,706)	(497,440)	(1,010,087)
Short term notes	(709,782)	(238,489)	(78,834)	-	(38,714)	-	(1,065,819)
Trade payables	(826,935)	(220,473)	(107,986)	(73,724)	(16,114)	-	(1,245,232)
Other payables	(16,518)	-	(466)	(2,087)	(23,861)	-	(42,932)
Accruals	(81,150)	-	-	-	-	-	(81,150)
Lease liabilities	(6,802)	(6,596)	(6,380)	(6,155)	(29,920)	(100,620)	(156,473)
Amounts due to related companies	(38,819)	(3,489)	-	-	- (53)	-	(42,361)
Total financial liabilities	(1,802,088)	(586,841)	(336,595)	(152,652)	(221,368)	(598,060)	(3,697,604)

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

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

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

33. 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.

33. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy

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

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

GROUP	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
31 December 2020				
Property, plant and equipment	-	-	1,172,049	1,172,049
LIABILITY				
Bank loans	-	(430,224)	-	(430,224)
31 December 2019				
Property, plant and equipment		-	1,214,365	1,214,365
LIABILITY				
Bank loans		(452,699)	-	(452,699)

COMPANY	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
31 December 2020				
COMPANY				
Assets				
Property, plant and equipment	-	-	1,172,049	1,172,049
LIABILITY				
Bank loans	-	(411,113)	-	(411,113)
31 December 2019				
Assets				
Property, plant and equipment	-	-	1,214,365	1,214,365
LIABILITY				
Bank loans	-	(344,256)	-	(344,256)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

33. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Reconciliation of level 3 assets

	2020 KShs 000	2019 KShs 000
At 1 January	1,214,365	1,155,238
Additions	118,161	193,571
Transfer from WIP	-	-
Disposals	(1,148)	(895)
Depreciation charge	(159,329)	(133,549)
At 31 December	1,172,049	1,214,365

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.

34. OPERATING SEGMENT INFORMATION

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

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 2020	Paints	Adhesives	Elimination	Total
Assets and Liabilities	KShs '000	KShs '000	KShs '000	KShs '000
Segment assets	6,168,663	69,379	(607,180)	5,630,862
Investment in subsidiary	1,019,277	-	(1,019,277)	-
Total assets	7,187,940	69,379	(1,626,457)	5,630,862
Segment liabilities	4,227,174	26,896	(532,716)	3,721,354
Other segment information	Paints	Adhesives	Elimination	
	KShs '000	KShs '000	KShs '000	
Capital expenditure - property, plant and equipment and intangible assets	170,014	57	-	170,071
Depreciation and amortisation	346,843	143	-	346,986
Revenue				
Sales to external customers	8,911,433	280,271	-	9,191,704
Inter segment sales	342,121	73,268	(415,389)	-
Interest income	11,122	-	-	11,122
Other income	297,756	8,373	-	306,129
Interest expense	(240,808)	(1,158)	-	(241,966)
Impairment loss on investment in subsidiaries	(116,927)	-	116,927	-
Results				
Operating results	922,987	14,363	(74,464)	862,886
Income tax expense	(263,381)	-	-	(263,381)
Profit for the year	659,606	14,363	(74,464)	599,505

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

34. OPERATING SEGMENT INFORMATION (continued)

31 December 2019 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	5,944,195	51,510	(474,164)	5,521,541
Investment in subsidiary	1,136,204	-	(1,136,204)	-
Total assets	7,080,398	51,510	(1,610,367)	5,521,541
Segment liabilities	4,652,714	23,390	(461,873)	4,214,231
Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	268,434	-	-	268,434
Depreciation and amortisation	296,154	150	-	296,304
Revenue				
Sales to external customers	8,359,207	244,445	-	8,603,652
Inter segment sales	383,760	36,892	(420,652)	-
Interest income	12,217	-	-	12,217
Other income	274,246	14,269	-	288,515
Interest expense	(303,554)	(1,800)	-	(305,354)
Impairment loss on investment in subsidiaries	(653,081)	-	653,081	-
Results				
Operating results	532,200	8,065	(12,291)	527,974
Income tax expense	(204,951)	-	-	(204,951)
Profit for the year	327,249	8,065	(12,291)	323,023

Revenue from external customers	2020 KShs '000	2019 KShs '000
Kenya	8,110,888	7,604,645
Uganda	482,676	438,665
Tanzania	425,721	386,244
Rwanda	172,419	174,098
Total revenue	9,191,704	8,603,652

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

The group's sales are derived from various customers and there is no major customer it derives a substantial amount of sales from.

Non-current assets	2020 KShs '000	2019 KShs '000
Kenya	1,446,592	1,445,697
Uganda	200,286	235,006
Tanzania	107,132	122,873
Rwanda	16,433	26,817
	1,770,443	1,830,393

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

35. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES

Crown Paints Tanzania Limited and Regal Paints Uganda Limited have a history of losses and rely on the parent company for provision of working capital. 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.

36. 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.

	2020 KShs'000	2019 KShs'000
Share capital	355,905	355,905
Share premium	80,174	80,174
Retained earnings	1,340,432	722,829
Equity	1,776,511	1,158,908
Total borrowings	1,318,204	2,094,994
(Less) / add: cash and cash equivalents (Note 28)	(303,848)	(389,243)
Net debt	1,014,356	1,705,751
Total capital	2,790,867	2,864,659
Gearing ratio	36%	60%

37. EVENTS AFTER THE REPORTING PERIOD

During the Annual General Meeting held on 30 October 2020 the Company communicated its intention to raise gross proceeds of approximately KShs 711,810,000 by way of a rights issue. On 7 May 2021, the Capital Markets Authority granted approval to the Company to undertake the rights issue to raise KShs 711,810,000 by issuing and listing 71,181,000 new ordinary shares on the Nairobi Securities Exchange.

As at 3 March 2021, the Company's authorized share capital has been increased to KShs 818,535,000 divided into 163,707,000 ordinary shares of KShs 5 each (this includes the 21,345,000 ESOP shares and the 71,181,000 Rights Issue shares). This is up from the authorised share capital of KShs 355,905,000 divided into 71,181,000 shares of KShs 5 each.

38. COVID-19 PANDEMIC IMPACT AND MEASURES TAKEN BY THE COMPANY

The entire world is facing a major crisis following the spread of the Covid-19 pandemic leading to lockdowns aimed at containing the spread. This has had an impact on economies and businesses.
In Kenya, the Government announced lockdown and restrictions as a counter - measure against the spreading of Covid-19. By the year-end, some of the restrictions had been eased. As a manufacturing entity, the group continued operations during the lockdown period. Consequently, the group and company's financial performance remained strong amidst the pandemic.

The group initiated a number of actions to manage costs, maintain liquidity and manage capital risk. These actions included reassessing planned capital expenditure; operating cost and direct marketing expenditure reductions and managing working capital.

The Covid-19 pandemic continues to affect the economy, businesses and peoples' way of life at the time of issuing these consolidated and separate financial statements. The directors expect that the group and company's operations will continue despite the disruption caused by the pandemic. The directors have also assessed that:

- No adjusting events or conditions existed at the reporting date affecting the financial statements.
- The going concern status of the group and company will not be affected by this event in the foreseeable future and the group and company will continue to operate as a going concern.
- Customer credit risk is not expected to increase further. Management will continue to closely monitor customer segments to ensure that exposures are mitigated.

There are no conditions that would warrant impairment of non-financial assets.
The group continues to be steadfast in implementing the government directives on measures aimed at reducing impact of the COVID-19 pandemic to ensure that staff and customers are safe. The board has put in place a strong business continuity plan to ensure there is minimal business interruptions.

The management continue to monitor and assess the impact of Covid-19 Pandemic on the group and company. The board does not expect any major impact of the pandemic on operations of the group and company.

The directors are not aware of any other event after the reporting date, as defined by IAS 10 Events after the Reporting Period, that require disclosure in or adjustments to the financial statements as at the date of this report.

NOTES

To: The Registrar
Custody & Registrar Services Limited

IKM Place, Tower B

1^{st} Floor, 5^{th} Ngong Avenue

PO Box 8484 - 00100

NAIROBI

PROXY FORM

CROWN PAINTS KENYA PLC

I/We...

Share A/c No ....

of (address)...

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

....

of (address)...

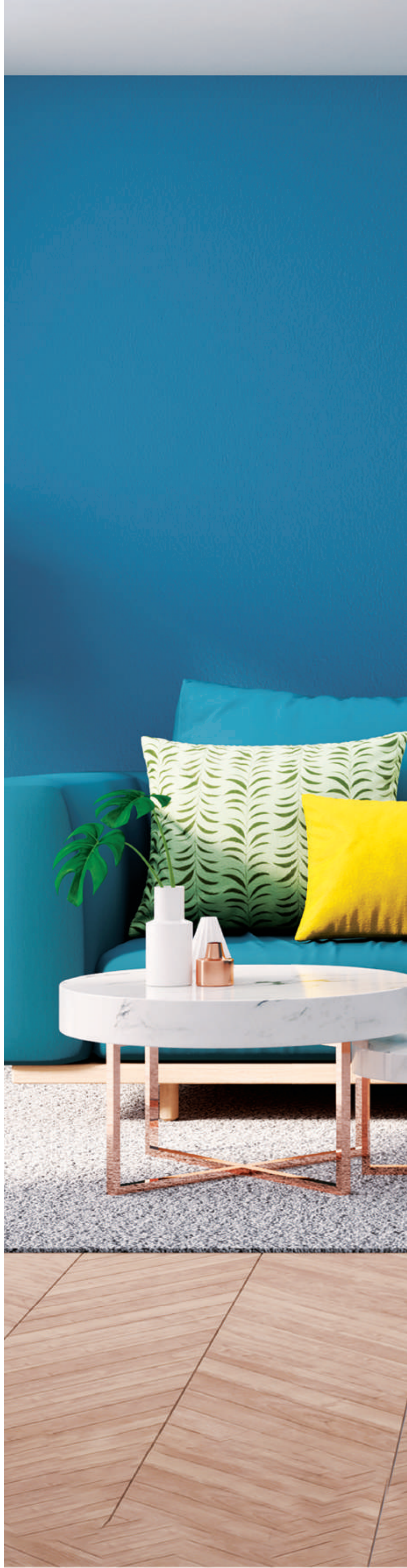
or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixty Fourth Annual General Meeting of the Company to be held on Wednesday, 11 August 2021 and at any adjournment thereof.

As witness I/We lay my/our hand (s) this _____day of _________________________ 2021.

Signature _________________________ Signature _________________________

Please clearly mark the box below to instruct your proxy how to vote

RESOLUTION	FOR	AGAINST	ABSTAIN
1 To consider and, if approved, adopt the audited financial statements for the year ended 31st December 2020 together with the Directors' and Auditors' Reports thereon.			
2 To receive, consider and if thought fit approve the Directors' Remuneration Report and the remuneration paid to the Directors' for the year ended 31st December 2020 and to authorise Directors to fix the remuneration of the Non-Executive Directors.			
3 To re-elect Directors: a) In accordance with Article 98 of the Company's Articles of Association, Ms. Alice Owuor having been appointed a Director during the year retires and being eligible, offers herself for re-election.			
b) In accordance with Article 98 of the Company's Articles of Association, Mr. Nicholas Kathiari having been appointed a Director during the year retires and being eligible, offers himself for re-election.			
c) Mr. Stephen Oundo retires by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for re-election.			
d) 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. Nicholas Kathiari ii) Mr. Stephen Oundo iii) Ms. Alice Owuor			
4 To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31st December 2021 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2021.			



If you like it... Crown it!

CROWN PAINTS HEAD OFFICE
Likoni Road, Industrial Area, Nairobi
P.O BOX 78848 - 00507
TEL: 0709 887 000
EMAIL: info@crownpaints.co.ke