CROWN PAINTS KENYA LTD
AND SUBSIDIARIES

2013 ANNUAL REPORT
&
FINANCIAL STATEMENTS


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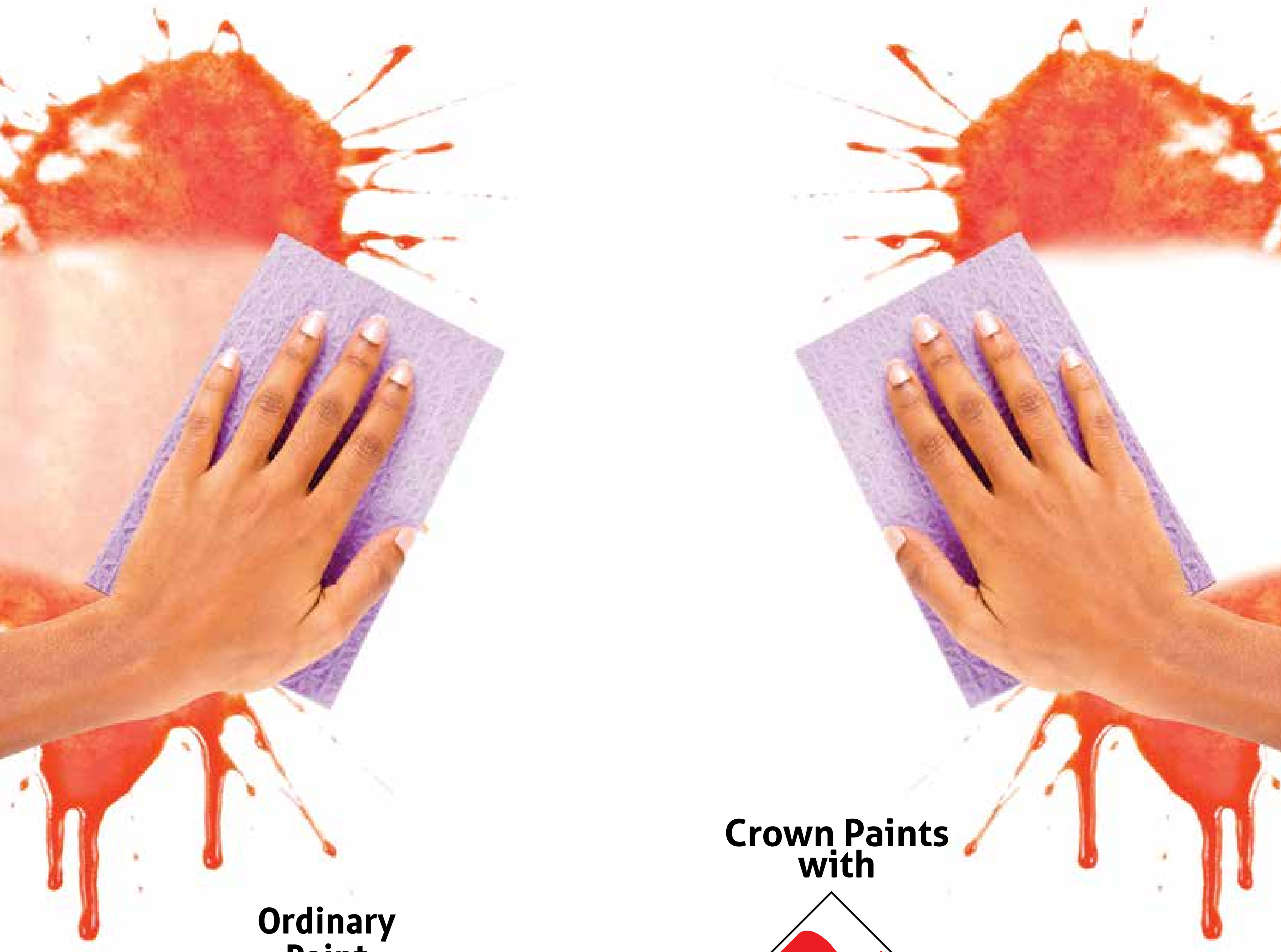

Surface Protector • Stain-Resistant • Easy Clean

Contents

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 57th Annual General Meeting of the Company will be held at the Panafric Hotel, Kenyatta Avenue, Nairobi on Thursday, 26 June 2014 at 11.00 am. to conduct the following business:

1 To read the notice convening the meeting.

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

3 To consider and, if approved, adopt the audited Financial Statements for the year ended 31 December 2013 together with the Directors' and Auditors' Reports thereon.

4. To declare a final dividend of KShs 1.75/= per ordinary share for the financial year ended 31 December 2013, and approve the closure of the Register of Members at 4.30 pm on 27 July 2014 for one day only.

5 To approve the Directors' remuneration for 2013.

6 To elect Directors:

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

   ii) Ms Anne Amadi, who was appointed as a Director of the Company on 1 September 2013, retires from office in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers herself for re-election.

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

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 29 April 2014

NB: In accordance with section 136 (2) of the Companies Act (Cap. 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. Proxy forms should be returned to The Registrar, Custody & Registrar Services Limited, P.O. Box 8484, 00100 - Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof. A form of proxy is provided at the end of this report.

Chairman's Statement

In 2013, Crown continued to increase market share in terms of volumes, new innovative products, and thereby realizing highly commendable financial results.

We saw the continuation of Crown's regional expansion strategy to push into East Africa, and set up marketing and distribution infrastructures in new markets whilst gaining market share in countries where we already have a presence.

We are pleased to announce that in Uganda where we trade as Regal Paints, we grew our volume of litres by 60% in 2013. We hope that the trend continues.

In our export markets, the combined volume sales in 2013 of southern Sudan, Rwanda, Burundi, and Tanzania showed an increase of 50%. With more concentration in these markets, in 2014, we hope to maintain growth in these countries.

We now have a presence in Arusha, Mwanza, Dar-es-salaam, Kigali, and of course Uganda. In these countries or cities, we have our own warehouses, showrooms and/or factories. In times to come, we envisage to have showrooms in each of these places as well as manufacturing presence.

Today, Kenyan companies can no longer have a strategy to be market leaders in Kenya alone. What happens in the surrounding countries or regions, has an impact on Kenya, whether the impact is positive or negative. Kenyan companies, including your own company, Crown Paints, must minimize negative risks that may happen in Kenya, in terms of lower sales volumes, financial results, by expanding and being present in as many countries as possible in the next five year period.

You, as shareholders are fortunate to have a good, forward looking management team and workers, down the line, who jointly, in consultation, have already started this process. This is a time and financially consuming exercise that takes years of input before the fruits of hard labour can be reaped.

With good fortunes and foresight the company has a stable of well known paint brands.These brands and paints are continually improved with latest technical raw materials available, latest environmentally friendly and safe manufacturing processes, from the first stage of raw material selection to the final discharge of effluents. We can boast with pride, that as a paint manufacturer, we have contributed to the reduction of toxic elements into our atmosphere, and will continue to strive to reach zero pollutants, in times to come.

Many of the processes Crown now follow are of international standards. They may be expensive; however, we believe we must contribute to a safe and harmless environment for future generations.

Crown is very aware of its social responsibility; we know that we have to assist the less fortunate and most vulnerable in the society. To this end, we have carried out numerous events and projects. In 2014, one of the major projects will be the Jaipur Foot project. This social funding will be for purchase and fitting of prosthetics, mainly, for children who have lost limbs during their life, and are unable to carry on a normal life.

Kenya, as a country, without doubt in 2013 as had a see-saw year. There have being economically good news as well as bad news. Fortunately, surrounding countries continue to come to Kenya to invest, make Kenya their home, as their countries have become war stricken and rule of law has become terror. Many of these inbound investments require Kenyan goods, increasing sales for companies. For Crown, the requirement of construction of all types of buildings, increases our sales and is seen as a positive.

A few countries far away, have discussed at the private and government level to invest in full cities, infrastructure, such as more highways to remote areas of Kenya, railways of great kilometers, linking towns, crossing borders to neighbouring countries. Even if some of these projects materialize, Kenya GDP and per capita income will grow and bring jobs, wealth, and stability, which are much needed by a country wishing to become a Tiger in Africa.

The Kenya government has a mammoth task for its first term in office. Recurring expenses are eating into 70% of the largest ever budget in Kenya's history, leaving very little to alleviate poverty. Thorough investment is much needed in health, education, infrastructure, and technology in the country. This is a constant and daily problem that the government has to solve to achieve its planned 2030 vision.

However, we always find the silver lining in any difficultly; Kenya still has a robust, self contained, self financed private sector, increased educated human resources, upgraded educational schools, colleges, universities, now able to compete with some of the most modern countries in the world.

In closing, I wish to thank the Board of Directors for their continual aspiring support which they give uncalled for, year after year, with dedication and subliminal commitment.

Also, importantly, I would like to thank the entire staff of Crown in Kenya, Uganda, Tanzania, and Rwanda, who through their unwavering commitment to the company, Crown continues to achieve new milestones.

Finally, and with greatest importance, we the board of directors, management and staff of Crown Paints Group, once again thank our loyal shareholders for their continual support of Crown Paints.

Thank you.
Mhamud Charania

29 April 2014

Group Chief Executive Officer Statement

Dear shareholders,

I am extremely delighted to announce the annual results for the year 2013, in which the sales revenue has grown to Kshs. 5.2 Billion registering a16% Revenue Growth and a 20% Volume Growth.

Kenya's G.D.P has grown by 4.7% compared to 5.6% for the year 2012. Planned reforms and devolution has given a reasonable platform to improve overall business performance in the country.

A stable Macro-Economic policy has allowed an increase in domestic demand based on stable currency and raw material prices. The well-executed management strategy has contributed to an extraordinary performance in 2013. Profitability has grown by 49% over 2012.

My thoughts & vision

The present Board of Directors decreed that Crown Paints would benchmark to International Standards rather than local, hence emphasizing the quality of products which is after all the heritage of Crown Paints Kenya.

Amani Art Amani Heart children in-printing to symbolize a plea for peace during the 2012 election – Crown Paints Uniting colours of Kenya Campaign

Innovation has proven to be the cornerstone of all that represents a brand leader with a vision that reflects market education, progress, development and caring for the community.

We contributed to the peace effort of the 2013 Elections, our contributory sponsorship of the presidential debates placed us on a pedestal as a National Treasure providing all stake holders in Crown with pride and purpose.

As our last four years growth have exceeded Kenya's G.D.P four times, we are fast becoming a National Asset with eyes on the greater East African Region.

The focus of growth is:

To protect that which we have garnered internally over the last 25 years. That is measured, though with opportunities which surround us in Tanzania, Uganda, Rwanda, Burundi and Ethiopia. We don't close our eyes on Southern Sudan; and whilst Somalia maybe even more troublesome, there must be a future for both. We need to calculate when?

Rather than talk about the region and what goodies it may hold, we have ventured with people and products; a committed investment with our Assets. The results to date are positive and lead us to plot a determined, calculated policy which provides that key step, from Kenyan brand leader to regional leader. The judgement is not just volumes, each country has its own challenges.

Their own culture and all pride themselves as independent, we must be an integrated part of their Business psyche. We will synergise, but will be interrelated as an asset to each economy. Ideas and successes we have achieved in Kenya can be rolled out and adopted to provide winning formulas.

One major danger to our growth was counterfeit and we dealt with it post-haste by introducing a more secure method of seals. We then used a helpline to support and establish control and there by maintain the highest customer confidence. Many illegal operations were razed and prosecuted by the legal authorities.

Group Chief Executive Officer Statement (continued)

Let me share with you some of the achievements that have further cemented our position and set the scene for continued growth. It is these victories which automatically lead to the next successful chapter.

Sales, marketing and customer care initiatives

2013 saw the pilot launch of our "Bring it to the People".

Crown showrooms were established to educate, inform and evaluate by providing larger-than-life options whether colour or product. Every shareholder is warmly and positively invited to visit our Westlands, Lavington, Nyali and Nakuru showrooms.

They will provide first hand information:

I. Who we are?

II. What we offer? What is the future direction?

III. You will see leadership from the leaders.

All showrooms have been equipped with most modern digital touch screens to help customers choose colour schemes for their own houses and become specialists.

Westlands showroom

We have recruited qualified interior designers to advice customers on colour schemes for their dream houses when they visit our showrooms.

Our belief at Crown is that Innovation is the spine for organizational success. In this regard, we remain committed to development of world class products and solutions for our ever discerning customers.

In line with our vision "To create an Innovative and Colourful brand in East Africa", we launched into the market new and unique product lines that positioned us as a fashion and design company through the launch of Armourcoat and Metallica finishes.

We also introduced Medicryl anti-bacterial emulsion paint, specifically to address healthcare concerns for mothers to be, babies, hospitals, hotels and schools.

Further we launched Gyplast, a price-friendly scheming material for walls and ceilings. This is a product that has been well received by contractors and developers.

Technology has been recognized as the cutting edge for competitiveness in modern business. In 2013, we put pillars for e-commerce by commencing the development of online purchase options. When ready, this payment platform shall enable timeliness and flexibility for our diverse clientele, wherever they may be.

In addition, we revamped our website and in the wake of digital marketing put in place activations that saw our Facebook numbers grow from 500 to over 30,000 likes.

COYA award for most innovative, and knowledge management company of year 2013

Reward and recognition

Overall, our strong market stance and internal process improvement has given us recognition from our peers, and awards have begun to flow from the National and International bodies who assess who is performing and at what level.

We bagged the most prestigious COYA award for most innovative, and knowledge management company in 2013, which shows our commitment towards innovation and information management.

Every year, the Marketing Society of Kenya (MSK) rewards corporates that showcase their brands or campaigns through unique and creative communication. At the 2013 gala night, Crown won in three categories namely;

(a) 2nd Runner up, Best Advertising Campaign: Medicryl Anti-bacterial Paint

(b) 1st Runner Up, Best Experiential Campaign: Be a part of a paint revolution mall activations

(c) 1st Runner Up, Best Social Campaign: Uniting colours of Kenya

These awards demonstrate the strength of the brand and its equity.

Group Chief Executive Officer Statement (continued)

COYA award for most innovative, and knowledge management company of year 2013

Manufacturing, health, safety, environment and quality.

Our production team was able to meet all customers' supply demand with a 99% fill rate, to improve our customer satisfaction and delight. According to a survey conducted by an external agency, it shows achievement of 85% satisfaction index which is above international standards.

CPKL gives high priority to health and safety of its employees with due importance to conservation of environment and its correlation with achieving business goals. In order to improve activities for environment, safety and quality, CPKL carries out internal audits at its plant and depots, selecting areas for improvement and creating new measures.

Plans for 2014

1. Roll out production in Arusha by the first quarter of 2014.
2. Capacity enhancement of decorative range by 1000K Litres / Month by putting up plant at Kisumu to take regional advantage.
3. 2013 CPKL was certified for ISO 14001 as part of our commitment to environment conservation. Plans for 2014 include tracking and measuring our environment, health and safety parameters through an ERP module. .
4. Upgrade the manufacturing facilities in line with ISO 18001 requirements and to be accredited for the same by year 2014.

Productivity improvement initiatives (Kaizen way of life)

Kaizen is taking root as a culture in CPKL which is a positive sign for long term success of the organization.

Crown focused on skill building of the people to achieve the sustained results in the long term. All the employees were trained at all depots on Kaizen foundation, 5S, Waste Elimination (MUDA), Value Stream Mapping (VSM) and Autonomous Maintenance (AM).

In 2013 we emphasized on 5S for achieving sustained results in terms of safety and good working environment. the 5S status has improved by almost 20% with respect to 2012.

Crown focused on Autonomous Maintenance (AM) for improving the availability of equipment/machines in order to fulfil customer's expectations. Autonomous Maintenance was extended to other machines to cover 100% of critical machines. It also assisted to improve the OEE by around 10% which can be realized in additional manufacturing capacity.

Painters training in Mathare

Group Chief Executive Officer Statement (continued)

Corporate Social Responsibility

As a responsible corporate citizen, we witnessed with sorrow the skirmishes surrounding the 2007-2008 elections and said never again would corporates sit on the fence and leave peace and harmony to the reserve of government.

As a result of this resolve, we invested towards a peace campaign through sponsorship of the presidential debates, and also by working with Amani Art Amani Heart to preach peace in Kibera, and other

Rotary conference donation towards projects in line with their mission "service above self".

slums through interactions, coordinated by provincial administration and working with children to paint peace messages on murals. We also took the message of peace into billboards, press and television. The positive impact of these efforts are evidenced in the peaceful 2013 elections.

In 2013 we upheld our commitment to supporting societies and enhancing the environment in which we operate. We joined hands with the Rotary Club International by donating towards projects in line with their mission "service above self".

We continued with sponsorship for destitute and underprivileged children through feeding programmes, talent development; for example Vikings Girls' Hockey

Vikings girls Hockey team support

St. Pauls Children's home

Team, school fees support through institutions like AMMA Charitable Trust and transformation of learning environments. We extended the painting program not only to schools but to health care institutions using world class product that drastically reduce the rate of bacteria multiplication, hence lowering the risk of infection.

Future outlook 2014

Government devolution and a new governance structure of Kenya will give a framework to emphasize on infrastructure and continuous development of the counties.

Our major focus on regional expansion is to establish manufacturing facilities in Kisumu, Tanzania and Uganda to meet customer demand and fuel further Crown Paints growth in 2014 and onwards.

However, as regional market demand for paint is more for economy brands ,it may not show immediate significant improvement in profitability in the short term, due to competition with established players in the respective regions. To overcome this, efforts will be put to engage customers on knowledge basis so as to enhance both the knowledge and quality aspects of our products.

Innovation is going to be a key driver in exploring the growth potential of Kenya's regional market in 2014. In Kenya the average approval for new homes by the City Council is 15,000 p.m, translating to 180,000 homes per year. CPKL will lead the growth from the front to meet customer expectations to boost our robust growth, 2014 onwards.

I take this opportunity to extend my immense gratitude to my fellow directors, stake-holders and employees of CPKL for their dedicated commitment and a wonderful performance in 2013.

Rakesh Rao

29 April 2014

Corporate Governance

Introduction

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

Governing body of Crown Paints Kenya Ltd

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

The Board of Directors

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

Responsibilities

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

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

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

Composition of the board

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. They are eligible for re-election. The current composition of the Board is given on page 16.

Board Meetings

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

Board Committees

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

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

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

The Board appoints other committees as and when required.

Communication with shareholders

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

Directors' emoluments and loans

The aggregate amount of emoluments paid to Directors for services is disclosed in Note 23, page 60 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Executive Directors

Rakesh Rao
Group Chief Executive Officer

Hussein Ramji
Vice Chairman

Patrick Mwati
Finance Director

Crown Staff

Corporate Information

Principal place of business

Mogadishu Road
P.O. Box 78084 - 00507
Nairobi.

Registered office

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

Bankers

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

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

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

Solicitors

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

Secretary

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

Registrars

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

Auditors

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

Report of the Directors

The directors submit their report and the consolidated audited financial statements for the year ended 31 December 2013, which show the state of the Group's and Company's affairs.

1. PRINCIPAL ACTIVITIES

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

2. GROUP RESULTS

   The results for the year are set out on page 21.

3. COMPANY RESULTS

   The results for the year are set out on page 25.

4. DIVIDENDS

   Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 1.75 (2012: KShs 1.25) per share amounting to KShs 41,522,250 (2012: KShs 29,658,750).

5. FINANCIAL STATEMENTS

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

6. RESERVES

   The reserves of the Group and the Company are set out on page 57, Note 13.

7. DIRECTORS

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

Mhamud Charania	-	Chairman (Non-executive)
Rakesh Rao	-	Chief Executive Officer (Executive)
Francis Maina	-	Non-executive
Patrick Mwati	-	Finance Director (Executive)
Hussein Charania	-	Vice Chairman (Executive)
Anne Amadi	-	Non-executive (Appointed on 1 September 2013).

8. AUDITORS

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

9. GOING CONCERN

   The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Further, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

By Order of the Board

Conrad Nyukuri
Secretary

Date: 29 April 2014

Statement of Directors Responsibilities

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

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

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

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

....

Rakesh Rao
Group Chief Executive Officer

....

Patrick Mwati
Finance Director

Date: 29 April 2014

Report of the Independent Auditors to the members

We have audited the consolidated and separate financial statements of Crown Paints Kenya Limited (the company) and its subsidiaries (together, the Group), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 20 to 73.

Directors' Responsibility for the consolidated financial Statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2013, and of the Group's and Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal and regulatory requirements

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

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

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

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

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

Nairobi
29 April 2014


www.crownpaints.co.ke

Consolidated Statement of Financial position

For the year ended 31 december 2013

	Note	2013 KShs'000	2012 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3	736,506	639,454
Intangible assets	4	32,816	20,541
Prepaid leases	5	8,759	9,024
		778,081	669,019
CURRENT ASSETS			
Inventories	8	898,871	690,713
Trade and other receivables	9	1,020,826	706,133
Amounts due from related parties	10(i)	98,960	15,913
Cash and cash equivalents	29	148,696	176,485
		2,167,353	1,589,244
TOTAL ASSETS		2,945,434	2,258,263
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	118,635	118,635
Reserves	13	1,243,079	1,057,567
		1,361,714	1,176,202
NON-CURRENT LIABILITIES			
Deferred tax	15	14,922	47,352
CURRENT LIABILITIES			
Bank overdraft	16	80,498	4,373
Interest bearing loans and borrowings	17	189,175	154,359
Commercial paper	18	258,918	68,558
Amounts due to related parties	10(ii)	70,369	155,468
Trade and other payables	19	945,472	616,894
Current tax payable	11	24,366	35,057
		1,568,798	1,034,709
TOTAL EQUITY AND LIABILITIES		2,945,434	2,258,263

The financial statements were approved by the Board of Directors on 29 April 2014 and signed on its behalf by:

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Consolidated Statement of Compehensive Income

For the year ended 31 december 2013

	Note	2013 KShs'000	2012 KShs'000
REVENUE	20	5,158,992	4,432,877
COST OF SALES	21	(3,328,782)	(2,969,046)
GROSS PROFIT		1,830,210	1,463,831
OTHER INCOME	22	83,738	51,704
		1,913,948	1,515,535
EXPENSES:-			
Administration and establishment	23	(970,963)	(778,870)
Selling and distribution	24	(579,441)	(455,347)
Finance costs	25	(30,102)	(57,148)
		(1,580,506)	(1,291,365)
PROFIT BEFORE TAX	27	333,442	224,170
TAX EXPENSE	11	(119,599)	(90,627)
PROFIT FOR THE YEAR		213,843	133,543
ATTRIBUTABLE TO:			
Owners of the parent		213,843	133,543
Non- Controlling interest		-	-
		213,843	133,543
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		-	
Exchange difference on translation of foreign operation		(2,575)	9,149
Income tax effect		-	-
		(2,575)	9,149
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(2,575)	9,149
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		211,268	142,692
ATTRIBUTABLE TO:			
Owners of the parent		211,268	142,692
Non- Controlling interest		-	-
		211,268	142,692
Basic and diluted earnings per share (KShs)	28	9.01	5.63

Consolidated Statement of changes in Equity

For the year ended 31 december 2013

	Note	Share Capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Foreign Currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2012		118,635	80,174	139,358	-	714,253	1,052,420
Profit for the year		-	-	-	-	133,543	133,543
Other comprehensive income		-	-	-	9,149	-	9,149
Total comprehensive income		-	-	-	9,149	133,543	142692
Transfer of excess depreciation-2012		-	-	(21,514)	-	21,514	-
Deferred tax on excess depreciation		-	-	10,749	-	-	10,749
2011 final dividend paid	14	-	-	-	-	(29,659)	(29,659)
At 31 December 2012		118,635	80,174	128,593	9,149	839,651	1,176,202
At 1 January 2013		118,635	80,174	128,593	9,149	839,651	1,176,202
Profit for the year		-	-	-		213,843	213,843
Other comprehensive income		-	-	-	(2,575)	-	(2,575)
Total comprehensive Income		-	-	-	2,575	213,843	211,268
Transfer of excess depreciation- 2013		-	-	(13,010)	-	13,010	-
Deferred tax on excess depreciation		-	-	3,903	-		3,903
2012 final dividend paid	14	-	-	-	-	(29,659)	(29,659)
At 31 December 2013		118,635	80,174	119,486	6,574,	1,036,845	1,361,714

Consolidated Statement of Cash Flows

For the year ended 31 december 2013

OPERATING ACTIVITIES	Note	2013 KShs'000	2012 KShs'000
Profit before tax		333,442	224,170
Adjustments for:-			
Depreciation	3	92,744	81,794
Amortisation of intangible assets	4	8,872	6,899
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		9,639	19,564
Interest expense	25	30,102	57,148
Interest income	22	(1,563)	(949)
Gain on disposal of property, plant and equipment	22	(279)	(1,288)
Operating profit before working capital changes		473,222	387,603
Increase in trade and other receivables		(314,693)	(72,533)
(Increase)/Decrease in inventories		(208,158)	4,145
Increase in trade and other payables		328,580	74,170
(Increase)/Decrease in due from related party balances		(83,047)	40,743
Decrease in due to related party balances		(85,099)	(29,173)
Cash flows generated from operations		110,805	404,955
Income tax paid	11	(158,817)	(65,121)
Interest received	22	1,563	949
Interest paid	25	(30,102)	(57,148)
Net cash (used in)/generated from operating activities		(76,551)	283,635
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(190,359)	(96,213)
Purchase of intangible assets	4	(21,228)	(15,808)
Proceeds on sale of property, plant and equipment		951	622
Net cash used in investing activities		(210,636)	(111,399)
FINANCING ACTIVITIES			
Loan proceeds		708,148	385,460
Loan payment		(673,362)	(377,807)
Borrowings on commercial paper		437,660	68,560
Commercial paper payment		(247,300)	(150,248)
Dividends paid on ordinary shares	14	(29,659)	(29,659)
Net cash generated from/(used in) financing activities		195,487	(103,694)
Net increase in cash and cash equivalents		(91,700)	68,542
Cash and cash equivalents at the beginning of the year		172,112	113,238
Foreign translation currency reserve		(2,575)	(9,149)
Effect of exchange rate changes on cash & cash equivalents		(9,639)	(519)
Cash and cash equivalents at the end of the year	29	68,198	172,112

Company Statement of Financial Position

For the year ended 31 december 2013

	Note	2013 KShs'000	2012 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3	682,452	602,653
Intangible assets	4	32,440	19,832
Prepaid leases on land	5	8,759	9,024
Investments in subsidiary companies	6	47,219	22,338
Deposit for shares	7	204,028	204,028
		974,898	857,875
CURRENT ASSETS			
Inventories	8	787,834	625,980
Trade and other receivables	9	907,726	630,368
Amounts due from related parties	10(i)	418,807	262,527
Current tax recoverable	11	-	-
Cash and cash equivalents	29	107,133	161,922
		2,221,500	1,680,797
TOTAL ASSETS		3,196,398	2,538,672
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	12	118,635	118,635
Reserves	13	1,562,114	1,348,930
		1,680,749	1,467,565
NON CURRENT LIABILITIES			
Deferred tax	15	14,922	47,352
CURRENT LIABILITIES			
Bank overdraft	16	80,498	4,373
Interest bearing loans and borrowings	17	189,175	154,359
Commercial paper	18	258,918	68,558
Trade and other payables	19	846,116	590,943
Amounts due to related parties	10(ii)	101,622	170,465
Current tax payable	11	24,398	35,057
		1,500,727	1,023,755
TOTAL EQUITY AND LIABILITIES		3,196,398	2,538,672

The financial statements were approved by the Board of Directors on 29 April 2014 and signed on its behalf by: -

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

Company Statement of Comprehensive Income

For the year ended 31 december 2013

	Note	2013 KShs'000	2012 KShs'000
REVENUE	20	5,005,269	4,348,917
COST OF SALES	21	(3,283,198)	(2,948,839)
GROSS PROFIT		1,722,071	1,400,078
OTHER INCOME	22	77,607	42,546
		1,799,678	1,442,624
EXPENSES: -			
Administration and establishment	23	(889,230)	(700,245)
Selling and distribution	24	(521,810)	(421,638)
Finance costs	25	(30,102)	(56,694)
		(1,441,142)	(1,178,577)
PROFIT BEFORE TAX	27	358,536	264,047
TAX EXPENSE	11	(119,599)	(90,627)
PROFIT FOR THE YEAR		238,937	173,420
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		238,937	173,420
Basic and diluted earnings per share (KShs)	28	10.07	7.31

Company Statement of Changes in Equity

For the year ended 31 december 2013

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2012		118,635	80,174	179,734	934,512	1,313,055
Profit for the year		-	-	-	173,420	173,420
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	173,420	173,420
Transfer of excess depreciation- 2012		-	-	(21,514)	21,514	-
Deferred tax on excess depreciation		-	-	10,749	-	10,749
2011 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2012		118,635	80,174	168,969	1,099,787	1,467,565
At 1 January 2013		118,635	80,174	168,969	1,099,787	1,467,565
Profit for the year		-	-	-	238,937	238,937
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-		238,937	238,937
Transfer of excess depreciation- 2012				(13,010)	13,010	-
Deferred tax on excess depreciation				3,903	-	3,903
2012 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2013		118,635	80,174	159,862	1,322,075	1,680,749

Company Statement of Cash Flows

For the year ended 31 december 2013

OPERATING ACTIVITIES	Note	2013 KShs'000	2012 KShs'000
Profit before tax		358,536	264,047
Adjustments for:-			
Depreciation of property, plant and equipment	3	81,533	72,827
Amortisation of intangible assets	4	8,619	6,652
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange gain		6,706	(1,137)
Interest expense	25	30,102	56,694
Interest income	22	(1,563)	(949)
Gain on disposal of property, plant and equipment	22	(255)	(541)
Operating profit before working capital changes		483,943	397,858
Increase in trade and other receivables		(277,358)	(70,146)
(Increase)/Decrease in inventories		(161,854)	16,157
Increase in trade and other payables		255,173	79,084
Increase in amounts due from related parties		(156,280)	(12,858)
Decrease in amounts due to related parties		(68,843)	(21,580)
Cash generated from operations		74,781	388,514
Income tax paid	11	(158,785)	(65,121)
Interest received	22	1,563	949
Interest paid	25	(30,102)	(56,694)
Net cash (used in)/generated from operating activities		(112,543)	267,648
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(161,686)	(86,921)
Purchase of intangible assets	4	(21,228)	(15,731)
Proceeds from sale of property, plant and equipment		609	622
Investment in subsidiary	6	(24,881)	(10,338)
Net cash used in investing activities		(207,186)	(112,368)
FINANCING ACTIVITIES			
Loan proceeds		708,183	385,460
Loan payment		(673,363)	(377,806)
Borrowings on commercial paper		437,660	68,560
Commercial paper payment		(247,300)	(150,248)
Dividends paid on ordinary shares	14	(29,659)	(29,659)
Net cash generated from/(used in) financing activities		195,521	(103,693)
Net increase cash and cash equivalents		(124,208)	51,587
Cash and cash equivalents at the beginning of the year		157,549	104,825
Effect of exchange rate changes on cash and cash equivalents		(6,706)	1,137
Cash and cash equivalents at the end of the year	29	26,635	157,549

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 amended IFRS:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified (‘recycled’) to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments became effective as of 1 July 2012 and are applied by the Group for the first time in the current period. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

The following amended IFRS became effective as of 1 January 2013:

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments have no impact on the Group’s financial position or performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set off in accordance with IAS 32. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

IAS 16 Classification of servicing equipment

The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. This has no impact on the group as the group does not hold spares and servicing equipment in its inventories.

IAS 32 Financial Instruments: Presentation

The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity. This has no impact on the group.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances.

The amendment clarifies that an entity can choose to adopt IAS 23, ‘Borrowing costs’, either from its date of transition or from an earlier date.

The consequential amendment clarifies that a first-time adopter should provide the supporting notes for all statements presented. This has no impact on the group.

The IASB amended the meaning of “Effective IFRSs”. An entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements. Amendment to the basis for conclusions only and is effective immediately. The amendment has no impact to the group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures as defined in IFRS 11 using proportionate consolidation has been removed.

Under these new categories, the legal form of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. IAS 28 has been amended to include the application of the equity method to investments in joint ventures.

IFRS 11 became effective as of 1 January 2013 and did not have an impact on the financial performance or the financial position of the Group , as the Group does not have such arrangements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries.

Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable
- Summarised financial information for each individually material joint venture and associate
- Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those risks

IFRS 12 amendments became effective as of 1 January 2013, the disclosures are provided in Notes 6 and 7.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:-

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee and;
- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control. The amendments become effective as of 1 January 2013. The Group assessed its control in the subsidiaries as per the requirements of IFRS 10. IFRS 10 did not have any impact on the currently consolidated subsidiaries as disclosed in Note 6 to the financial statements.

IAS 19 Employee Benefits

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures and in determining the discount rate used in accounting for employee benefit plans, an entity would include high quality corporate bonds issued by entities operating in other countries, provided that those bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds would be assessed at the currency level and not at the country level.

IAS 19R became effective as of 1 January 2013 and did not have any significant impact on the financial performance or the financial position of the Group. The Group's employment benefits are disclosed in Note 26 and include wages and salaries, defined contribution plan and provision for leave. The short-term benefits which include salaries and wages and provision for leave meet the definition of employee benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. The company's measurement of these benefits in previous years was already in line with this new definition.

IAS 34: Interim Financial Reporting (amendment) - Interim financial reporting and segment information for total assets and liabilities- effective for annual periods beginning on or after 1 January 2013

This improvement clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. The improvement had no impact on the Group's consolidated financial statements the Group's consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

IFRS 13 requires an entity to disclose additional information that helps users of its financial statements assess both of the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements
- for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

The amendment became effective as of 1 January 2013; Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note32 to the financial statements.

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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively. The amendment is effective for annual periods beginning on or after 1 July 2014 and will have no impact on the group.

IFRS 9 Financial Instruments

IFRS 9, as issued in November 2009 and October 2010, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 and Transitional Disclosures, issued in December 2011, moved the mandatory date to 1 January 2015. On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (IFRS 9 (2013)), which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The standard does not have a mandatory effective date, but it is available for immediate application. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. The Group does not expect this amendment to have material financial impact in future financial statements.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 40 Investment Property

The amendment is effective for annual periods beginning on or after 1 January 2014. The IASB clarified the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The description of ancillary services in IAS 40 differentiates between investment property and owner occupied property. IFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. These amendments are not expected to be relevant to the Group.

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

The IASB amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. Novation indicates that parties to a contract agree to replace their original counterparty with a new one. This is effective for annual periods beginning on or after 1 January 2014.

Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception This amendment Applies when IFRS 9 is applied

At the time of issue of the revised version of IFRS 9 including the hedge accounting chapter, IFRS 9 had no stated mandatory effective date. The Group had no derivatives during the current period. However, these amendments would be considered for future novations.

IAS 16 Property, Plant and Equipment

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

Adjust the gross carrying amount of the asset to market value, Or

Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The IASB also clarified that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount of the asset (i.e., gross carrying amount – accumulated depreciation/ amortisation = carrying amount).

The amendment to IAS 16.35(b) and IAS 38.80(b) clarifies that the accumulated depreciation/amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value.

This amendment provides more detail when users revalue assets and clarifies how an adjustment is recognised. The amendment is effective retrospectively. The Group is still assessing the impact however, the amendment is effective for annual periods beginning on or after 1 July 2014

IAS 19 Employee Benefits

With Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits) the IASB has amended the requirements in IAS 19 for contributions from employees or third parties that are linked to service:

If the amount of the contributions is independent of the number of years of service, contributions may be recognised as a reduction in the service cost in the period in which the related service is rendered (note: this is an allowed but not required method).

If the amount of the contributions depends on the number of years of service, those contributions must be attributed to periods of service using the same attribution method as used for the gross benefit in accordance with paragraph 70 of IAS 19.

The amendments are intended to provide relief in that entities are allowed to deduct contributions from service cost in the period in which the service is rendered. This was common practice prior to the 2011 amendments to IAS 19. In those cases the impact of retrospective application would be minimal. The amendments are to be applied retrospectively. The amendment is effective for annual periods beginning on or after 1 July 2014 and will have no impact on the Group.

IAS 36 Recoverable Amount Disclosures for Non- Financial Assets — Amendments to IAS 36 - effective for annual periods beginning on or after 1 January 2014.

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. In addition, additional disclosure requirements have been added as follows:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The Group does not expect that the amendment to any have material financial impact in future financial statements.

IFRS 3 Business Combinations

The IASB clarified that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. Contingent consideration cannot be measured at fair value through other comprehensive income. The amendment is effective for business combinations prospectively. Amendment clarifies that:

Joint arrangements are outside the scope of IFRS 3, not just joint ventures.

The scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendment is effective prospectively. This amendment is effective for annual periods beginning on or after 1 July 2014 and will have no impact on the Group.

IFRS 8 Operating Segments

Aggregation of operating segments:

The amendment clarifies that operating segments may be combined/aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar 'it further states that, the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. This amendment is applicable for annual periods beginning on or after 1 July 2014. The Group is still assessing the impact of the amendment.

IFRS 12 Disclosure of Interests in Other Entities

The amendment is effective for annual periods beginning on or after 1 January 2014. The investment entities amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity.

The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which must be consolidated (investments in subsidiaries) or accounted for using the equity method (investments in associates or joint ventures).

The Group has no subsidiaries with material non-controlling interests or unconsolidated structured entities. IFRS 12 thus had no impact on the Group's financial position or performance. The company's interest in other entities is disclosed in Note 6.

IFRS 2 Share-based Payment - Definition of vesting condition

The IASB amended the definitions relating to vesting conditions. Performance condition and service condition are defined in order to clarify various issues, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied .This amendment I is effective for annual periods beginning on or after 1 July 2014

The Group has no share based payment. IFRS 2 thus had no impact on the Group's financial position or performance.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

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

The consolidated financial statements of the Group have been prepared on a historical cost basis as modified by the revaluation of certain plant, property and equipment. The consolidated financial statements of the Group are presented in Kenya Shillings and all values are rounded to the nearest thousand, except when otherwise indicated.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013.

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

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

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

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

The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

c. Foreign currency transactions

The consolidated financial statements are presented in Kenya Shillings, which is also the parent'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 has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i. Transactions and balances

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

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

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

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 statement of comprehensive income is translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

d. Revenue recognition

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

Sale of goods

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

Interest income

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

Rental income

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

e. Taxation

Current income tax

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

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

Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

f) Property, plant and equipment

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

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

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

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

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

Land is stated at cost less any accumulated impairment losses.

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

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

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

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

g) Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor

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

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. There were no borrowing costs capitalized during the year ended 31 December 2013.

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

i) Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over their useful economic lives from the date they available for use, up to a maximum of five years. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset, is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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 did 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 of non-financial assets is discussed under note 1r (ii)

j) Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

At initial recognition, the Group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available-for-sale assets. Directors determine the appropriate classification of its investments at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

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

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

The Group's financial assets include cash and cash equivalents, deposit for shares and loans and receivables.

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees of costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss. An estimate is made of impaired receivables based on review of all outstanding amounts at year-end. The losses arising from impairment are recognised in the statement of comprehensive income as part of other operating expenses.

Bad debts are written off after all efforts of recovery have been exhausted.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the group's consolidated statement of financial position when: the rights to receive cash flows from the asset have expired;; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;

(a) the Group has transferred substantially all the risks and rewards of the asset, or

(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

ii) Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

iii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Trade payables and amounts due to related parties

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

Loans and borrowings

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

iv) Offsetting of financial instruments

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

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

v) Fair value of financial instruments

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

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

In the principal market for the asset or liability, or

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to note 32.

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

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

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.

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

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

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. The carrying amounts of cash equivalents approximate the fair value due to the short term nature thereof.

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

n) Provisions

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

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

o) Employee benefits

Defined contributions provident fund

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

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

Statutory pension scheme

The Group also makes contributions to the statutory defined contribution schemes in the three countries where operations are based.

Leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

Bonus

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

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

i. Judgements

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

Allowances for obsolete inventories

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

Impairment of financial instruments

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

Operating Lease Commitments–Group as Lessor

The Group has entered into commercial property leases on some of its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Refer to Note 31 for disclosure on the lease commitments.

ii. Estimates and assumptions

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

Useful lives of property, plant and equipment

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

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

Revaluation of certain class of property, plant and equipment

The Group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. The Group's leasehold buildings, plant, and machinery, motor vehicles, fixtures, fittings and equipment were last revalued on 1 December 2011. The assets were valued on the basis of open market value by independent valuer's, Real Appraisal Limited.

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

Intangible assets

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

Impairment losses

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Refer to notes 3,4, 8 and 9. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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

a. there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

b. significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

c. market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

d. the carrying amount of the net assets of the entity is more than its market capitalisation.

e. evidence is available of obsolescence or physical damage of an asset.

f. significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

g. evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

h. Contingent liabilities

As disclosed in Note 31 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

r) 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.

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2013

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At January 2012	20,528	373,739	372,075	128,765	385,610	1,280,717
Additions	5,000	44,112	19,765	44,720	76,762	190,359
Disposals	-	-	-	(4,289)	-	(4,289)
Exchange differences	-	-	(14,438)	(1,422)	(6,243)	(22,103)
At 31 December 2013	25,528	417,851	377,402	167,774	456,129	1,444,684
Comprising:						
Valuation	-	206,362	65,078	24,624	(9,325)	286,739
Cost	25,528	211,489	312,324	143,150	465,454	1,157,945
	25,528	417,851	377,402	167,774	456,129	1,444,684
Accumulated depreciation						
At 1 January 2012	-	67,141	232,494	76,029	265,599	641,263
Charge for the year	-	7,938	20,241	25,081	39,483	92,743
Eliminated on disposals	-	-	-	(3,617)	-	(3,617)
Exchange differences	-	(1,592)	(11,384)	(3,637)	(5,598)	(22,211)
At 31 December 2013	-	73,487	241,351	93,856	299,484	708,178
Carrying Amount	25,528	344,364	136,051	73,918	156,645	736,506

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

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

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2012

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At January 2012	20,528	358,342	363,313	109,921	335,603	1,187,707
Additions	-	15,397	8,762	22,047	50,007	96,213
Disposals	-	-	-	(3,203)	-	(3,203)
At 31 December 2012	20,528	373,739	372,075	128,765	385,610	1,280,717
Comprising:						
Valuation	-	206,361	65,078	24,624	(9,325)	286,738
Cost	20,528	167,378	306,997	104,141	394,935	993,979
	20,528	373,739	372,075	128,765	385,610	1,280,717
Accumulated depreciation						
At 1 January 2012	-	59,935	212,529	57,188	232,939	562,591
Charge for the year	-	7,206	19,965	21,963	32,660	81,794
Eliminated on disposals	-	-	-	(3,122)	-	(3,122)
At 31 December 2012	-	67,141	232,494	76,029	265,599	641,263
Carrying Amount						
At 31 December 2012	20,528	306,598	139,581	52,736	120,011	639,454

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Furniture fittings and equipment KShs'000	Total KShs'000
Cost	-	167,378	306,997	104,141	394,935	973,451
Accumulated depreciation	-	(26,146)	(201,457)	(69,873)	(266,765)	(564,241)
	-	141,232	105,540	34,268	128,170	409,210

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) COMPANY – Year ended 31 December 2013

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At 1 January 2012	20,528	373,740	290,611	117,735	361,690	1,164,304
Additions	5,000	44,112	14,585	27,932	70,057	161,686
Disposals	-	-	-	(2,384)	-	(2,384)
At 31 December 2013	25,528	417,852	305,196	143,283	431,747	1,323,606
Comprising:						
Valuation	-	206,362	65,078	24,624	(9,325)	286,739
Cost	25,528	211,490	240,118	118,659	441,072	1,036,867
	25,528	417,852	305,196	143,283	431,747	1,323,606
Accumulated depreciation						
At 1 January 2012	-	65,550	177,904	66,295	251,902	561,651
Charge for the year	-	7,938	14,533	21,934	37,128	81,533
Eliminated on Disposals	-	-	-	(2,030)	-	(2,030)
At 31 December 2013	-	73,488	192,437	86,199	289,030	641,154
Carrying Amount						
At 31 December 2013	25,528	344,364	112,759	57,084	142,717	682,452

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Furniture fittings and equipment KShs'000	Total KShs'000
Cost	-	211,490	240,118	118,659	441,072	1,011,339
Accumulated depreciation		(29,248)	(156,626)	(73,886)	(291,361)	(551,121)
		182,242	83,492	44,772	149,711	460,218

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(d) COMPANY – Year ended 31 December 2012

	Freehold Land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At 1 January 2012	20,528	358,343	284,139	101,128	316,448	1,080,586
Additions	-	15,397	6,472	19,810	45,242	86,921
Disposals	-	-	-	(3,203)	-	(3,203)
At 31 December 2012	20,528	373,740	290,611	117,735	361,690	1,164,304
Comprising:						
Valuation	-	206,362	65,078	24,624	(9,325)	286,739
Cost	20,528	167,378	225,533	93,111	371,015	877,565
	20,528	373,740	290,611	117,735	361,690	1,164,304
Accumulated depreciation						
At 1 January 2012	-	58,343	163,415	48,979	221,209	491,946
Charge for the year	-	7,207	14,489	20,438	30,693	72,827
Eliminated on Disposals	-	-	-	(3,122)	-	(3,122)
At 31 December 2012	-	65,550	177,904	66,295	251,902	561,651
Carrying Amount						
At 31 December 2012	20,528	308,190	112,707	51,440	109,788	602,653

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Furniture fittings and equipment KShs'000	Total KShs'000
Cost	-	167,378	225,533	93,111	371,015	857,037
Accumulated depreciation	-	(23,675)	(146,867)	(60,139)	(253,068)	(483,749)
	-	143,703	78,666	32,972	117,947	373,288

3. PROPERTY, PLANT AND EQUIPMENT (continued)

All assets, except freehold land, were revalued on 01 December 2011. The revaluation amounts have been incorporated in these financial statements.

The basis of valuation was: -

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

The methods used to determine the fair value was the comparables approach, which compares the sales of similar items in the market and depreciated replacement cost, which takes into account the current cost of replacement or reproduction of an asset.
The valuation was undertaken by independent professional valuer, Real Appraisal Limited. The revaluation surplus was credited to revaluation reserve while the revaluation deficit was charged to profit or loss.
The KCB and CBA facilities are secured by debenture of KShs 398 million and USD 1 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
There were no borrowing costs capitalized during the year ended 31 December 2013 (2012: Nil)

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Cost				
At 1 January	73,086	57,278	71,788	56,057
Additions	21,228	15,808	21,228	15,731
Exchange difference	-	-	-	-
At 31 December	94,314	73,086	93,016	71,788
Amortisation				
At 1 January	52,545	45,646	51,956	45,304
Charge for the year	8,872	6,899	8,619	6,652
Exchange difference	81	-	-	-
At 31 December	61,498	52,545	60,575	51,956
Carrying Amount	32,816	20,541	32,440	19,832

Intangible assets relate to computer software in use by the Group. The intangible assets have a finite life of 5 years.

There were no borrowing costs capitalized during the year ended 31 December 2013 (2012: Nil)
No intangible assets have been pledged as security (2012:Nil)

5. PREPAID LEASES

	GROUP 2013 KShs'000	GROUP 2012 KShs'000	COMPANY 2013 KShs'000	COMPANY 2012 KShs'000
Cost				
At 1 January and December	13,000	13,000	13,000	13,000
Amortisation				
At 1 January	3,976	3,711	3,976	3,711
Charge for the year	265	265	265	265
At 31 December	4,241	3,976	4,241	3,976
Carrying Amount	8,759	9,024	8,759	9,024

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

i) Mogadishu Road factory - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2013 is 33 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2013 is 33 years.

6. INVESTMENT IN SUBSIDIARIES

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

Details of investment	Country of incorporation	Activity	Holdings %	2013 KShs'000	2012 KShs'000
Crown Paints Allied Industries Limited (10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of adhesives	100	10,000	10,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) (5,000 ordinary shares of KShs 400 each)	Uganda	Selling of auto paints and decorative products	100	2,000	2,000
Crown Paints Tanzania Limited (2013 - 6,491) (2012 - 1,905) ordinary shares of KShs 5,426	Tanzania	Selling of auto paints and decorative products	100	35,219	10,338
				47,219	22,338

7. DEPOSIT FOR SHARES

	COMPANY 2013 KShs'000	COMPANY 2012 KShs'000
Crown Buildings and Products Limited	80,000	80,000
Crown Paints Allied Industries Limited	124,028	124,028
	204,028	204,028

This relates to deposit made in Crown Buildings and Products Limited - Uganda and capitalisation of amounts due from Crown Paints Allied Industries Limited pending allotment of shares. Deposit for shares is evaluated by the Company based on assessment of the risk of impairment of the subsidiary companies. As at the close of the year, there were no impairment indicators on the subsidiary companies.

8. INVENTORIES

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Finished goods and packaging materials	435,080	337,501	377,945	311,190
Raw materials	431,682	389,325	376,857	349,811
Goods in transit	60,549	8,777	60,549	8,777
Work In progress	16,306	-	16,280	-
	943,617	735,603	831,632	669,778
Inventories write-down to NRV	(44,746)	(44,890)	(43,798)	(43,798)
	898,871	690,713	787,834	625,980

The amount of inventories write down reversed during the year was KShs. 144,000 (2012: expensed KShs 15,886,000) for the Group and KShs. Nil (2012: KShs 14,793,852) for the Company, for inventories carried at net realisable value. This is recognised in cost of sales.

9. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Trade receivables	925,914	635,999	831,315	569,659
Other receivables	57,908	36,494	46,597	27,823
Prepayments	37,004	33,640	29,814	32,886
	1,020,826	706,133	907,726	630,368

Other receivables consist of staff loans, staff floats and deposits with suppliers. Staff loans are issued to staff to purchase motor vehicles at an interest rate of 8% pegged on 91 day treasury bill as prescribed by the Commisioner of income tax, for a period not exceeding 36 months. The staff loans are secured against the log books. Staff floats and deposits with suppliers are made in the ordinary course of business and are non-interest bearing. They are for a period not exceeding two months.

Prepayments were made in the ordinary course of business with regards to insurance premiums and computer software licences.
As at 31 December 2013, Group trade receivables at initial value of KShs 172,499,000 (2012: KShs 130,240,000) was fully provided for. The Company trade receivables at initial value of KShs 150,500,000 (2012: KShs 107,161,000) was fully provided for.
See below for the movements in the provision of impairment of receivables.

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
At beginning	130,240	99,706	107,161	74,756
Charge for the year (Note 24)	76,921	39,221	68,295	38,838
Used during the year (write-off)	(9,454)	(2,254)	-	-
Recoveries in the year	(25,208)	(6,433)	(24,956)	(6,433)
	172,499	130,240	150,500	107,161
Ageing analysis for trade receivables:				
Less than 60 days (neither past due nor impaired)	654,882	574,194	631,669	485,629
61 days to 90 days	59,920	48,273	46,980	48,273
Over 90 days	383,611	143,772	303,166	142,918
	1,098,413	766,239	981,815	676,820
Impaired	(172,499)	(130,240)	(150,500)	(107,161)
Total	925,914	635,999	831,315	569,659

Trade receivables are non-interest bearing and are generally on 30-90 days terms.
Ageing analysis for other receivables:

Less than 60 days (neither past due nor impaired)	11,529	9,969	218	1,298
61 days to 90 days	246	812	246	812
Over 90 days	46,133	25,713	46,133	25,713
Impaired	-	-	-	-
Total	57,908	36,484	46,597	27,823

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48% of the Company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 13.69% of the Company's shares. Crown Paints and Building Products Limited is a wholly owned subsidiary of Barclay Holdings Limited. Thus the ultimate parent Company for Crown Paints Kenya Limited is Barclay Holdings Limited. The remaining 38.31% of the shares are widely held. Crown Paints Allied Industries Limited, Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited – Uganda) 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 and services rendered:

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Receivables from related parties:				
Crown Paints and Building Products Limited	77,854	12,361	35,667	12,361
Regal Paints Uganda Limited	-	-	304,506	230,884
Crown Paints Allied Industries Limited	-	-	-	-
Crown Paints – Rwanda	4,061	3,552	255	-
Crown Paints Tanzania Limited	-	-	61,334	19,282
Border Properties Limited	17,045	-	17,045	-
	98,960	15,913	418,807	262,527
Ageing analysis				
Less than 30 days	4,721	12,361	23,703	44,278
31 to 60 days	2,308	-	15,693	24,569
61 days to 90 days	2,335	-	22,044	721
Over 90 days	89,596	3,552-	357,367	192,959
	98,960	15,913	418,807	262,527
Impaired	-	-	-	-
Neither past due nor impaired	98,960	15,913	418,807	262,527
(ii) Payables to related parties:				
Crown Paints Allied Industries Limited	-	-	30,692	14,997
Daxian Limited	70,369	155,468	70,369	155,468
Regal Paints Uganda Limited	-	-	561	-
	70,369	155,468	101,622	170,465

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
(iii) Sale and services rendered:				
Crown Paints Allied Industries Limited	-	-	5,375	15,000
Tintas Berger LDA	-	7,217	-	7,217
Regal Paints Uganda Limited	-	-	149,112	82,264
Crown Paints Tanzania Limited	-	-	60,232	22,265
Crown Classic Limited	38	7,688	38	7,688
Purchase of goods				
Crown Paints Allied Industries Limited	-	-	50,318	71,372
Regal Paints Uganda Limited	-	-	139	4,005
Services rendered				
Daxian Limited	162,334	139,369	162,334	139,369
Crown Paints and Building Products Limited	5,700	5,700	5,700	5,700

The following companies, Daxian Limited and Crown Paints & Building Products are wholly owned subsidiaries of the ultimate parent Barclay Holdings Limited.

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

Tintas Berger LDA and Crown Classic Limited is a related party by virtue of common directorship.

(iv) Key management personnel compensation

Short term employee benefits	160,826	114,848	160,826	111,950
Defined contribution plan	4,416	3,362	4,416	3,362
	165,242	118,210	165,242	115,312
(v) Directors' remuneration				
Fees for services as directors	6,213	6,139	6,213	6,139
Other emoluments (included in key management compensation above)	100,347	75,207	100,347	75,207
	106,560	81,346	106,560	81,346
Loans to related parties	7,164	4,442	7,164	4,442
Directors	9,252	3,089	9,252	3,089

Key management personnel comprise heads of departments and senior managers of the Group.
Terms and conditions of transactions with related parties
Amount due from and due to related parties are non interest bearing and current. The loans to key management and directors are issued to purchase motor vehicles at an interest rate of 8% for a period not exceeding 36 months. The loans are secured against the log books. The other amount due to or from related parties are not secured.
For the year ended 31 December 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
11. TAXATION				
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	35,057	(23,282)	35,057	(23,282)
Charge for the year	153,887	123,460	153,887	123,460
Over- provision in previous year	(5,761)	-	(5,761)	-
Payments during the year	(158,817)	(65,121)	(158,785)	(65,121)
Current tax payable	24,366	35,057	24,398	35,057
STATEMENT OF COMPREHENSIVE INCOME				
Current tax at 30 % on the taxable profit for the year	153,887	123,460	153,887	123,460
Over- provision in previous year	(5,761)	-	(5,761)	-
Deferred tax credit	(28,527)	(32,833)	(28,527)	(32,833)
	119,599	90,627	119,599	90,627
Deferred income tax on revaluation	(3,903)	(10,749)	(3,903)	(10,749)
	115,696	79,878	115,696	79,878
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	333,442	224,170	358,536	264,047
Tax at applicable rate of 30%	100,033	67,251	107,563	79,214
Tax effect on items not eligible for tax purposes	25,327	23,376	17,797	11,413
Over- provision in previous year	(5,761)	-	(5,761)	-
	119,599	90,627	119,599	90,627

Deferred income tax on revaluation is based on 30% of the revaluation surplus.

12. SHARE CAPITAL

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Authorised: 25,000,000 ordinary shares of KShs.5 each	125,000	125,000	125,000	125,000
Issued and fully paid: 23,727,000 (2011: 23,727,000) ordinary shares of KShs.5 each	118,635	118,635	118,635	118,635

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
13. RESERVES				
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	119,486	128,593	159,862	168,969
Foreign currency revaluation reserve	6,574	9,149	-	-
Retained earnings	1,036,845	839,651	1,322,078	1,099,787
	1,243,079	1,057,567	1,562,114	1,348,930

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

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

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

14. DIVIDENDS	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Final dividend for 2012 KShs. 1.25 per share (2011: KShs. 1.25 per share)	29,659	29,659	29,659	29,659
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December) Dividend on ordinary shares KShs 1.75 per share (2012: KShs 1.25 per share)	41,522	29,659	41,522	29,659

(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.

15. DEFERRED TAX LIABILITY

Movements in deferred tax during the year were as follows:

	Balance at 1 January KShs'000	Statement of Comprehensive income KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Year ended 31 December 2013				
Accelerated capital allowances	55,832	(287)	-	55,545
Unrealised exchange gain	(5,869)	5,869	-	-
Revaluation reserve	49,694	-	(3903)	45,791
Allowance for doubtful debts	(32,148)	(13,000)	-	(45,147)
Provisions for staff leave	(10,021)	(8,813)	-	(18,834)
Provision for bonus accrual	(5,698)	(3,596)	-	(9,294)
Provision for obsolete stock	(4,438)	(8,701)	-	(13,139)
	47,352	(28,528)	(3,903)	14,922
Year ended 31 December 2012				
Accelerated capital allowances	54,219	1,613	-	55,832
Unrealised exchange gain	2,896	(8,765)	-	(5,869)
Revaluation reserve	60,443	-	(10,749)	49,694
Allowance for doubtful debts	(22,427)	(9,721)	-	(32,148)
Provisions for staff leave	(4,197)	(1,501)	-	(5,698)
Provision for bonus accrual	-	(10,021)	-	(10,021)
Provision for obsolete stock	-	(4,438)	-	(4,438)
	90,934	(32,833)	(10,749)	47,352

16. BANK OVERDRAFT

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Bank overdraft	80,498	4,373	80,498	4,373

The bank overdraft facility is to the extent of ; Barclays Bank Limited - KShs 25 million, Kenya Commercial Bank Limited - KShs 150 million and USD 200,000 and Commercial Bank of Africa is to the KShs 110 million respectively. The KCB and CBA facilities are secured by debenture of KShs 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
The weighted average interest rate on the overdraft at year-end was 14% (2012: 18%). The bank overdraft are reviewed annually and payable on demand.

17. INTEREST BEARING LOANS AND BORROWINGS

	GROUP		COMPANY	
	2013 KShs'000	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Amounts falling due within one year	189,175	154,359	189,175	154,359

The loan facility relates to post import financing from Kenya Commercial Bank Limited and Commercial Bank of Africa for a period not exceeding 3 months and are secured pari-passu by debenture of KShs. 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
The weighted average interest rate on the loan at year-end was 9% (2012: 9%).

18. COMMERCIAL PAPER

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Amounts falling due within one year	258,918	68,558	258,918	68,558

The commercial paper is a non-secured facility and is repayable on maturity of the facility. The interest rate on the commercial paper is at treasury bills interest rate plus 1.5% and the commercial paper are for 91 days period.

19. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Amounts falling due within one year				
Trade payables	699,221	490,257	609,383	470,709
Other payables	42,277	29,643	38,914	24,146
Accruals	203,974	96,994	197,819	96,088
	945,472	616,894	846,116	590,943

Terms and conditions of the above financial liabilities:

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

20. REVENUE

The following revenue arose from sale of goods;

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Decorative paints	4,442,482	3,334,921	4,283,008	3,250,961
Industrial paints	481,244	445,420	481,244	445,420
Automotive paints	171,177	584,028	171,177	584,028
Adhesives	64,089	68,508	69,840	68,508
	5,158,992	4,432,877	5,005,269	4,348,917

21. COST OF SALES

Raw materials	2,901,940	2,749,787	2,879,119	2,737,499
Salaries and wages	110,770	91,444	104,656	89,871
Depreciation on plant and machinery	30,546	50,610	24,838	45,027
Machinery repairs and maintenance	42,369	34,732	41,972	34,715
Fuel, water and electricity	21,132	18,965	18,735	18,342
Others	222,025	23,508	213,878	23,385
	3,328,782	2,969,046	3,283,198	2,948,839

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
22. OTHER INCOME				
Gain on disposal of plant and equipment	279	1,288	255	541
Interest revenue	1,563	949	1,563	949
Miscellaneous income	15,348	8,064	13,213	2,957
Operating lease revenue	12,940	15,395	9,838	12,355
Doubtful debts write-back	25,208	6,434	24,956	6,433
Forex exchange gain	16,535	263	15,917	-
Surcharge sales	11,865	19,311	11,865	19,311
	83,738	51,704	77,607	42,546
23. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs (note 26)	564,238	438,030	516,200	416,173
Depreciation	62,195	31,184	56,694	27,800
Auditors' remuneration	7,191	6,665	4,900	4,500
Directors' emoluments:				
As directors	6,213	6,139	6,213	6,139
As executives	100,347	75,207	100,347	75,207
Legal and professional fees	11,494	17,767	10,616	17,247
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	8,872	6,896	8,619	6,652
Insurance	25,913	23,805	22,885	21,367
Foreign exchange loss	26,174	17,027	22,623	1,137
Office expenses	57,700	59,060	47,505	41,891
Consultancy fees	18,669	25,378	18,669	25,378
Computer costs	20,820	14,811	20,820	14,811
Travel	35,312	23,527	29,056	19,037
Maintenance, subscriptions and donations	5,893	14,206	5,893	6,629
Bank charges	6,011	9,249	5,242	9,152
Others	13,656	9,654	12,683	6,860
	970,963	778,870	889,230	700,245
24. SELLING AND DISTRIBUTION				
Transport	126,086	103,542	121,974	101,729
Advertising and promotion	287,064	223,149	265,904	212,834
Inventory write-downs	-	15,886	-	14,794
Allowance for bad debts	76,921	39,221	68,295	38,838
Write off during the year	734	-	734	-
Depot expenses	83,804	59,351	60,133	51,874
Others	4,832	14,198	4,770	1,569
	579,441	455,347	521,810	421,638
25. FINANCE COSTS				
Interest on loan and overdraft	20,034	30,439	20,034	29,985
Commercial paper interest	10,068	26,709	10,068	26,709
	30,102	57,148	30,102	56,694

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
26. STAFF COSTS				
Salaries	439,283	348,262	399,250	334,159
Defined contribution plan	1,525	2,628	1,246	2,389
Provision for accrued leave	17,250	5,003	16,991	5,003
Medical	4,054	2,456	4,054	2,456
Insurance	37,586	28,361	37,161	27,937
Staff meals and other supplies	46,815	45,751	39,773	38,671
Training and development	17,725	5,569	17,725	5,558
	564,238	438,030	516,200	416,173
27. PROFIT BEFORE TAX				
The profit before tax is stated after charging: -				
Depreciation	92,742	81,794	81,533	72,827
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	8,872	6,899	8,619	6,652
Directors emoluments:				
As directors	6,213	6,139	6,213	6,139
As Executives	100,347	75,207	100,347	75,207
Auditors' remuneration	7,191	6,665	4,900	4,500
Finance Costs	30,102	57,148	30,102	56,694
Foreign exchange loss	26,174	17,027	22,623	1,137
And after crediting: -				
Interest income	1,563	949	1,563	949
Operating lease income	12,940	15,395	9,838	12,355
Gain on disposal of property, plant and equipment	279	1,288	255	541
Forex exchange gain	16,535	263	15,917	-
28. BASIC AND DILUTED EARNINGS PER SHARE				
Net profit attributable to ordinary shareholders	213,843	133,543	238,937	173,420
Weighted average number of ordinary shares in '000'	23,727	23,727	23,727	23,727

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the year, as shown above. There were no potentially dilutive shares as at 31 December 2013 and as at 31 December 2012.

29. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Cash and cash equivalents	148,696	176,485	107,133	161,922
Bank overdraft (Note 16)	(80,498)	(4,373)	(80,498)	(4,373)
	(68,198)	172,112	26,635	157,549

30. OTHER FACILITIES GRANTED BY THE BANKERS

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Letters of credit	147,900	314,866	147,900	314,866
Guarantees given by bankers	20,000	20,000	20,000	20,000
	167,900	334,866	167,900	334,866

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

31. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

(i) AS LESSEE:

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2012 KShs'000	2012 KShs'000	2012 KShs'000	2012 KShs'000
Within 1 year	124	124	124	124
Within 5 years	620	620	620	620
More than 5 years	3,348	3,472	3,596	3,472
	4,092	4,216	4,340	4,216

Lease commitments relate to lease rentals for LR No. 209/5792 and LR No. 209/4275.

(ii) AS LESSOR:

The Group has entered into commercial property leases on its surplus office and manufacturing building and certain items of machinery. These non-cancellable leases have remaining terms of four years three months. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market condition.

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

	GROUP		COMPANY	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Within 1 year	8,988	10,101	5,892	9,690
Within 5 years	51,374	35,079	38,216	33,927
	60,362	45,180	44,108	43,617

31. COMMITMENTS AND CONTINGENCIES (continued)

b) Contingent Liabilities

The Group had no contingent liabilities as at year end (2012: Nil).

c) Legal matters

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

d) The Group has no capital commitments as at year end (2012: Nil)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors 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 loan, bank overdraft and commercial paper. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

The Group's exposure to the risks associated with changes in interest rates on bank overdraft is minimal as its borrowings are pegged to interest rates that were agreed in advance and do not change regularly. Interest on the Company's loan is charged at the bank's base rate prevailing from time to time, currently at 9%. The interest on the commercial paper is at treasury bills interest rate plus 1.5%.

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

USD		GROUP Effect on profit before tax	Effect on equity	COMPANY Effect on profit before tax	Effect on equity
2013	Increase by 2%	8,962	6,273	8,962	6,273
	Decrease by 2%	(8,962)	(6,273)	(8,962)	(6,273)
2012	Increase by 2%	6,182	4,327	6,182	4,327
	Decrease by 2%	(6,182)	(4,327)	(6,182)	(4,327)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subjected to credit verification procedures. The credit controller assesses the credit quality of each customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. Utilisation of credit limits is regularly monitored. The Group has no collateral holdings as there is no significant concentration of credit risk.

GROUP:

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

COMPANY:

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The amount that best represents the Group's and company's maximum exposure to the credit risk as at 31 December 2012 is made up as follows:
GROUP:

As at 31 December 2012	Neither past due nor impaired Less than 60 day's KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	impaired KShs'000	Total KShs'000
Trade receivables	574,194	48,273	143,772	(130,240)	635,999
Other receivables	36,494	-	-	-	36,494
Amount due from related party	12,361	-	3,552	-	15,913
Bank balances and cash	176,485	-	-	-	176,485
	799,534	48,273	147,324	(130,240)	864,891

COMPANY:

As at 31 December 2012	Neither past due nor impaired Less than 60 day's KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	impaired KShs'000	Total KShs'000
Trade receivables	485,629	48,273	142,918	(107,161)	569,659
Other receivables	27,823	-	-	-	27,823
Amount due from related party	68,847	721	192,959	-	262,527
Bank balances and cash	161,922	-	-	-	161,922
	744,221	48,994	335,877	(107,161)	1,021,931

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

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	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Assets in foreign currencies				
Trade and other receivables	13,998	14,714	13,998	14,714
Cash and bank	19,380	18,731	16,747	18,731
Amounts due from related companies	-	-	-	270,637
Foreign currency assets	33,378	33,445	30,745	304,082
Liabilities in foreign currencies				
Amounts due to related companies	-	-	-	(182,670)
Payables	(248,029)	(184,756)	(118,901)	(184,756)
Interest bearing loans and borrowings	(189,173)	-	(189,173)	-
Foreign currency liabilities	(437,202)	(184,756)	(308,074)	(367,426)
Net foreign currency (liability) / asset position	(403,824)	(151,311)	(277,329)	(63,344)

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
2013 Increase in US$ by 4%	16,153	11,307	11,093	7,765
Decrease in US$ by 4%	(16,153)	(11,307)	(11,093)	(7,765)
2012 Increase in US$ by 4%	6,052	9,149	2,534	1,774
Decrease in US$ by 4%	(6,052)	(9,149)	(2,534)	(1774)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

GROUP

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	Total KShs'000
At 31 December 2013				
Financial assets				
Trade receivables	420,854	293,948	211,112	925,914
Other receivables	11505	270	46,133	57,908
Amount due from related party	4,721	4,643	89,596	98,960
Bank balances and cash	148,696	-	-	148,696
Total financial assets	585,776	298,861	346,841	1,231,478
Financial Liabilities				
Bank overdraft	(80,498)	-	-	(80,498)
Interest bearing loan	-	(189,173)	-	(189,173)
Commercial paper	-	(258,918)	-	(258,918)
Trade and other payables	(346,842)	(175,411)	(219,245)	(741,498)
Amounts due to related party	(13,858)	(21,453)	(35,058)	(70,369)
Total financial liabilities	(441,198)	(644,955)	(254,303)	(1,341,578)
Net liability gap	144,578	(346,094)	92,538	(108,978)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	Total KShs'000
At 31 December 2012				
Financial assets				
Trade receivables	-	600,322	35,677	635,999
Other receivables	-	13,778	-	13,778
Amount due from related party	-	12,361	3,552	15,913
Bank balances and cash	176,485	-	-	176,485
Total financial assets	176,485	626,461	39,229	842,175
Financial Liabilities				
Bank overdraft	(4,373)	-	-	(4,373)
Interest bearing loan	-	(134,273)	(22,175)	(156,448)
Commercial paper	-	(68,558)	-	(68,558)
Trade and other payables	-	(337,290)	(182,610)	(519,900)
Amounts due to related party	-	(48,623)	(106,845)	(155,468)
Total financial liabilities	(4,373)	(588,744)	(311,630)	(904,747)
Net liability gap	172,112	37,717	(272,401)	(62,572)

Company	Up to 1 month KShs'000	1-3 months KShs'000	3 to 12 months KShs'000	Total KShs'000
At 31 December 2013				
Financial assets				
Trade receivables	415,552	263,097	152,666	831,315
Other receivables	194	270	46,133	46,597
Amount due from related party	23,703	37,737	357,367	418,807
Bank balances and cash	107,133	-	-	107,133
Total financial assets	546,582	301,104	556,166	1,403,852
Financial Liabilities				
Bank overdraft	(80,498)	-	-	(80,498)
Interest bearing loan and borrowings	-	(189,173)	-	(189,173)
Commercial paper	-	(258,918)	-	(258,918)
Trade payables and other payables	(269,312)	(159,740)	(219,245)	(648,297)
Amounts due to related party	(14,748)	(25,836)	(61,038)	(101,622)
Total financial liabilities	(364,558)	(633,667)	(280,283)	(1,278,508)
Net liability gap	182,024	(332,563)	275,883	125,344

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	Total KShs'000
At 31 December 2012				
Trade receivables	485,629	48,273	35,757	569,659
Other receivables	1,298	812	25,713	27,823
Amount due from related party	44,278	25,290	192,959	262,527
Bank balances and cash	161,922	-	-	161,922
Total financial assets	693,127	74,375	254,429	1,021,931
Financial Liabilities				
Bank overdraft	(4,373)	-	-	(4,373)
Interest bearing loan and borrowings	-	(154,359)	-	(154,359)
Commercial paper	-	(68,558)	-	(68,558)
Trade payables	(188,284)	(225,940)	(56,485)	(470,709)
Other payables	(24,146)	-	-	(24,146)
Amounts due to related party	(34,093)	(54,549)	(81,823)	(170,465)
Total financial liabilities	(250,896)	(503,406)	(138,308)	(892,610)
Net liability gap	442,231	(429,031)	116,121	129,321

Fair value of financial assets and liabilities

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments 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)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial assets and liabilities (continued)

GROUP AND COMPANY	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2013					
Property, plant and equipment		-	-	1,444,684	1,444,684

COMPANY	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Property, plant and equipment		-	-	1,323,606	1,323,606

The fair values of property, plant and equipment presented in the table above are as 1 December 2011, the date of valuation, and therefore are not equal to the carrying amounts as at 31 December 2013.

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

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

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

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings, cash and cash equivalents, issued capital and retained earnings. The Group's capital requirements are currently met through internally generated funds from operations. To maintain capital structure, the Group may adjust dividend payment to shareholders. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The Group does not have a gearing ratio target and is not subject to any imposed capital requirements.

	2013 KShs'000	2012 KShs'000
Share capital	118,635	118,635
Share premium	80,174	80,174
Retained earnings	1,036,845	839,651
Equity	1,235,654	1,038,460
Total borrowings	448,091	222,917
Less: cash and cash equivalents (note 29)	(68,198)	(172,112)
Net debt	379,893	50,805
Total capital	1,615,547	1,089,265
Gearing ratio	23.51%	4.66%

34. OPERATING SEGMENT INFORMATION

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

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

The adhesives segment manufactures and sells adhesives.

Transfer prices between the operating segments are set on commercial terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Operating Segments

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

Segment information is as presented below.

31 December 2013 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	3,482,061	68,845	(605,472)	2,945,434
Investment in subsidiary	251,247	-	(251,247)	-
Total assets	3,733,308	68,845	(856,719)	2,945,434
Segment liabilities	1,931,812	6,133	(354,225)	1,583,720

34. OPERATING SEGMENT INFORMATION (continued)

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	206,090	-	-	206,090
Depreciation and amortisation	97,016	4,599	-	101,615
Revenue				
Sales to external customers	5,094,903	64,089		5,158,992
Inter segment sales	209,344	5,375	(214,719)	-
Other income	80,636	3,102	-	83,738
Results				
Operating results	327,890	5,552	-	333,442
Income tax expense	(119,599)	-	-	(119,599)
Profit for the year	208,291	5,552	-	213,843

31 December 2012 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	2,665,396	66,557	(473,690)	2,258,263
Investment in subsidiary	226,366	-	(226,366)	-
Total assets	2,891,762	66,557	(700,056)	2,258,263
Segment liabilities	1,340,149	9,396	(267,484)	1,082,061

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	106,314	5,707	-	112,021
Depreciation and amortisation	84,096	4,597	-	88,693
Revenue				
Sales to external customers	4,364,369	68,508	-	4,432,877
Inter segment sales	119,529	56,230	(175,759)	-
Other income	43,671	8,033	-	51,704
Results				
Operating results	214,842	10,813	(1,485)	224,170
Income tax expense	(90,627)	-	-	(90,627)
Profit for the year	124,215	10,813	(1,485)	133,543

34. OPERATING SEGMENT INFORMATION (continued)

Revenue from external customers	2013 KShs '000	2012 KShs '000
Kenya	4,753,689	4,137,820
Uganda	224,265	188,479
Tanzania	70,091	16,135
Burundi	12,792	9,202
Mozambique	8,952	7,217
Rwanda	23,692	19,914
Somali	15,035	8,426
South Sudan	41,912	45,624
DRC	8,564	60
Total revenue	5,158,992	4,432,877

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	2013 KShs '000	2012 KShs '000
Kenya	734,099	646,555
Uganda	28,813	19,077
Tanzania	15,169	3,387
	778,081	669,019

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

35. INCORPORATION

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

36. EVENTS AFTER THE REPORTING DATE

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

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

PROXY FORM

CROWN PAINTS KENYA LIMITED

I/We...

of ....

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

of..

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Fifty Seventh Annual General Meeting of the Company to be held on 26 June 2014 and at any adjournment thereof.

Signed/Sealed this .... day of 2014

....

Notes:

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

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

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