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2021

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**



“

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   CrownPaintsPLC

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NOTICE OF THE ANNUAL GENERAL MEETING

Crown Paints Kenya Plc (the Company)

Notice of the 65th Annual General Meeting to the shareholders of Crown Paints Kenya Plc


In accordance with the provisions of the Companies Act, No. 17 of 2015 as amended by the Business Laws (Amendment) (No. 2) Act, 2021, NOTICE IS HEREBY GIVEN in accordance with Article 77 of the Company's Articles of Association that the 65th Annual General Meeting of the Company will be held virtually at 11.00 am on Tuesday, 28th June 2022 to conduct the business set out below:

All resolutions will be conducted by way of a Poll.

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

1. To adopt the audited financial statements for the year ended 31st December 2021 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report and the remuneration paid to the Directors for the year ended 31st December 2021 and to authorise Directors to fix the remuneration of the Non-Executive Directors.
3. To declare a final dividend of KShs 4/= per ordinary share for the financial year ended 31 December 2021 and to approve the closure of the Register of Members at 4.30 pm on 28th June 2022 for one day only.
4. To re-elect the following directors:
 - a) Ms Alice Owuor retires by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers herself for re-election.
 - b) In accordance with the provisions of section 769 of the Companies Act 2015, the following Directors, being members of the Board Audit and Risk Committee be elected individually to continue serving as members of the Committee:
 - i) Mr Nicholas Kathiari
 - ii) Mr Steven Oundo
 - iii) Ms Alice Owuor
5. To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31st December 2022 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2022.

BY ORDER OF THE BOARD



Conrad Nyukuri
Company Secretary
Date: 16th May 2022

NOTICE OF THE ANNUAL GENERAL MEETING

Notes

1. Shareholders wishing to participate in the meeting should register for the AGM online at <https://digital.candrgroup.co.ke> or by dialling USSD short code number ***384*043#** or via a link to the AGM Platform that will be sent to them via SMS and/or Email and following the various registration prompts. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares at hand. For assistance shareholders should dial the following helpline number +254 20 7608216 from 8:00 a.m. to 4:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email to digital@candrgroup.co.ke.
2. Registration for the AGM shall open on 20th June 2022 at 8.00 am and will close on 27th June 2022 at 12.00 noon. Shareholders will not be able to register after 27th June 2022 at 12.00 noon.
3. Shareholders wishing to raise any questions for the AGM may do so by:
 - a) Sending their written questions by email to digital@candrgroup.co.ke or
 - b) Dialling the USSD code ***384*043#** and selecting the option (ask Question) on the prompts or
 - c) Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM" Select "Q&A" option tab and submit questions in text box provided; or
 - d) To the extent possible, physically delivering their written questions with a return physical address or email address to the offices of Custody and Registrars Services Ltd, Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi. Shareholders sending questions by email or delivering to C&R Group must provide their full details (full names, Shares Account Number//CDSC Account Number) when submitting their questions and clarifications. Also attach a copy of your ID/Passport.
4. Shareholders wishing to vote may do so by:
 - a) Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM"; Select "Voting" option tab and vote; or
 - b) Dialling the USSD platform ***384*043#**; Use the menu prompts to Select the menu option for "Voting" and follow the various prompts regarding the voting process.
5. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi so as to be received not later than Monday, 27th June 2022 at 11.00 a.m. When nominating a proxy, the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Monday, 27th June 2022 to allow time to address any issues.

NOTICE OF THE ANNUAL GENERAL MEETING (Continued)

6. The Virtual AGM will be accessible to shareholders and proxies who have duly registered and received their log-in credentials. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers two hours before the AGM, reminding duly registered shareholders and proxies that the AGM will begin in two hours' time and providing the link to watch the live stream.
7. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD ***384*043#** or on the AGM Platform.
8. A poll shall be conducted for all the resolutions put forward in the notice.
9. Results of the AGM shall be published within 24 hours following conclusion of the AGM.
10. A copy of this notice, the proxy form, the Integrated Annual Report may be viewed from the company's website at **www.crownpaints.co.ke**.
11. The preferred method of paying dividends which are below KShs 140,000.00 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment can opt to receive future dividends by dialling ***483*038#** or contacting the Share Registrar, Custody & Registrars Services Limited.
12. All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No. 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date. Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

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

CROWN PAINTS KENYA PLC SHARE REGISTER

PERIODIC REPORT FOR APRIL 2022

TOP 30 SHAREHOLDERS		
Name	Shares Held	%
CROWN PAINTS AND BUILDING PRODUCTS LTD	68,924,730	48.42%
BEAUMONT PROPERTIES LIMITED	31,919,474	22.42%
BARCLAY HOLDINGS LIMITED	26,006,177	18.26%
STANBIC NOMINEES LTD A/C NR1030823	2,280,000	1.60%
BARCLAY HOLDINGS LIMITED	1,467,354	1.03%
ATEL MAHENDRA DAHYABHAI	672,060	0.47%
SHAH MINESH MULCHAND	521,080	0.36%
OGANGO JOHN OKUNA	520,500	0.37%
ZAVERCHAND PUNJA WAREHOUSES LTD	422,400	0.30%
DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	280,188	0.20%
SHAH BIJAL MULCHAND	229,624	0.16%
SHAH SAVITABEN VELJI RAICHAND	205,050	0.14%
ASSI SANTOKH SINGH	186,640	0.13%
SHAH SAROJBEN PRAFULKUMAR	164,040	0.12%
SHAH NISHITKUMAR RAMNIKLAL	159,900	0.11%
PATEL RAMABEN SUMANTRAI PURSOTTAM	128,000	0.09%
ALI MOHAMED ADAM	126,060	0.09%
SUNTRA NOMINEES A/C 0351	125,000	0.09%
THAWER ABDULRASUL ISMAIL	110,550	0.08%
SHAH PRAFULKUMAR HEMRAJ	106,180	0.07%
KUNGU PETER MWAURA	100,200	0.07%
SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	99,000	0.07%
SHAZIQUE ENTERPRISES LIMITED	94,710	0.07%
PARESH P UPADHYAY & HASMUKH A JOSHI	89,100	0.06%
SURESHCHANDRA RAICHAND SHAH	83,127	0.06%
SHAH JATIN KUMAR JUTHALAL	78,756	0.06%
RAJNIKANT NATHOOBHAI SHAH	77,220	0.05%
RAYANI SHAMSUDIN J. A. RAYANI & ROSINAKHANU S.	74,568	0.05%
MUCHINYI SILVESTER	69,600	0.05%
RUPAM GULABSI BHATIA	66,000	0.05%
Total Top 30 Shareholders	135,387,288	95.10%
Unselected 2,605 Shareholders	6,974,712	4.90%
Issued Shares	142,362,000	100.00%
Total Number of Shareholders	2,635	
Number of Shareholders at the CDSC	1,916	
Number of Shares Held at the CDSC	113,361,492	

CROWN PAINTS KENYA PLC SHARE REGISTER

PERIODIC REPORT FOR APRIL 2022 (Continued)

DEMAT ANALYSIS	Shares	%
CDSC	113,361,492	79.63%
CERTIFICATED	29,000,508	20.37%
TOTAL	142,362,000	100.00%

ANALYSIS BY DOMICILE	Shares	%
DOMICILE		
FOREIGN COMPANIES	61,741,405	43.37%
FOREIGN INDIVIDUALS	442,686	0.31%
LOCAL COMPANIES	70,706,356	49.67%
LOCAL INDIVIDUALS	9,471,553	6.65%
TOTAL	142,362,000	100.00%

ANALYSIS BY VOLUME	Shares	%
VOLUME		
1 - 500	172,707	0.12%
501 - 5000	2,295,455	1.61%
5001 - 10000	1,160,945	0.82%
10001 - 100000	4,077,686	2.86%
100001 - 1000000	4,057,472	2.85%
>1000000	130,597,735	91.74%
TOTAL	142,362,000	100.00%

CHAIRMAN'S STATEMENT



2021 was quite a challenging year as the whole world was still grappling with the devastating effects of COVID-19 pandemic which no doubt costed us many lives and loss of livelihoods. During the year, the pandemic continued to present significant challenges on our health and the business sector. COVID-19 measures that had been instituted to control the spread of virus since its outbreak largely remained enforced to ensure safety of our people. I want to take a moment to salute the Kenyan people and all other stakeholders for their resilience to overcome these challenges and remained on course to rebuilding their lives and the nation.

Performance Review

The Group's revenue during the year grew significantly by over 17 percent despite a myriad of challenges posed by COVID-19 pandemic. Though the adverse effects of the pandemic on the business was felt due to shortage of raw materials as movement was restricted, Crown Paints relied on a strong network of stakeholders to register improved growth. The 2021 economic survey also showed a resilient construction industry registering a double digit growth rate which also played an integral role in boosting business.

However, in addition to the resurgence of the pandemic in some key global strategic markets, 2022 is being seen as a difficult year due to the unfolding economic constraints ranging from volatility in the foreign exchange rates, scarcity of major foreign exchange currencies, inflation, lockdowns affecting supply chains, general shortage of commodities in the market and changes in the geopolitical environment. Russia-Ukraine conflict is causing the cost of raw material to rise which is also pushing up the cost of living and doing business. These are some of the factors we must contend with moving forward.

On subsidiaries, Crown Paints Tanzania Ltd, Regal Paints Uganda Ltd and Crown Paints Rwanda Ltd are breaking even in their respective markets though the parent company is still offering the necessary support.

Supporting Communities

Over the last 5 years Crown Paints Plc, has invested over KShs 100 million in programs that transform people's lives through social corporate initiatives. As a board our key focus areas range from providing foodstuff and hygiene essentials to different vulnerable groups of people, painting schools, children homes and hospitals across the country. We believe this is in line with our mission of transforming lifestyles through empowering communities. Our painters play a very significant role and are ambassadors of our brand. Team Kubwa loyalty program which is aimed at empowering women and the youth by imparting them with technical and entrepreneurial skills in painting and interior design is being improved on daily basis to ensure painters are on boarded and trained to acquire latest painting skills. More than 150,000 painters in our data base are being trained to improve their abilities and access more opportunities that will uplift their lives and those of their loved ones.

Corporate Governance

Crown Paints Kenya Plc boasts of its esteemed reputation in the market, which is earned by the high-quality products we offer to our customers over the years. We have maintained a reputable brand for 60 years by strategically and professionally running the organization with high value to customers and

CHAIRMAN'S STATEMENT (CONTINUED)

employees. Compliance and risk management is very fundamental for the Board at Crown Paints. The Board ensures compliance to the laid out statutory and regulatory frameworks by the authority while conducting business. In addition, the conduct of business both inside and outside the organization upholds high level of integrity. Risk management practices that identify and ensure management proactively deals with the risks continue to be followed.

Future Outlook

The Board will remain steadfast in formulating policies that drive the company's growth while focusing on the principles and values that the brand has held over the years. The Board will continue to invest in our people and resources as we anticipate 2022 to be a more challenging year. Kenya faces electioneering period, and we expect economic slowdown, but we remain optimistic. The large number of infrastructure projects being undertaken by government provide us with a platform to foresee a positive outlook.

In conclusion, and most importantly, on behalf of the Board I want to extend my heartfelt gratitude to all our shareholders, employees, customers and partners for their continued and unwavering support accorded towards creating more value for all stakeholders. To my fellow directors, I want to thank you for your sterling performance, dedication and support towards our company throughout the year.



.....
Mhamud Charania

Chairman

17th May 2022

BOARD OF DIRECTORS



BOARD OF DIRECTORS



LEFT TO
RIGHT

MHAMUD CHARANIA
CHAIRMAN

PATRICK MWATI
FINANCE DIRECTOR

ALICE AWUOR
NON EXECUTIVE DIRECTOR



RAKESH RAO
GROUP CHIEF EXECUTIVE OFFICER

STEPHEN OUNDO
NON EXECUTIVE DIRECTOR

HUSSEIN RAMJI
VICE CHAIRMAN

NICHOLAS KATHIARI
NON EXECUTIVE DIRECTOR

GROUP CHIEF EXECUTIVE OFFICER STATEMENT



During 2021 period we still faced unprecedented challenges occasioned by COVID-19 pandemic disrupting the order of doing business. Movement was restricted as part of the containment measures to reduce the spread of the deadly virus. To ensure business continued uninterrupted despite the significant challenges by the pandemic, Crown Paints invested heavily in technology to secure sufficient supply of products and services. The firm registered significant growth achieving over 17% driven by high sales. The subsidiaries in Tanzania, Uganda and Rwanda performed impressively contributing to overall performance.

Business Environment and Performance

The year under review was quite challenging as the country and the world over continued to grapple with COVID-19 pandemic which had significantly affected business operations. The Government had instituted measures to curb the spread of the COVID-19 virus which largely remained in place but were relaxed as the year progressed. These containment measures severely affected the demand and supply chain all over the world halted, which impacted negatively on our products. The Kenya Shilling continued to depreciate

affecting the cost of imported raw materials as a result pushing up the production costs. However, the strengths of Crown Paints brand and our network of stakeholders and their resilience continued to yield better returns and this is hoped to remain into the foreseeable future. The social and economic challenges that followed the Covid-19 containment measures in 2020 spilled into the year 2021. This did not favour business as the cost of doing business rose even higher than that for the year 2020 with the price of raw materials increasing due to constraints in the supply chain. The turbulence in the raw material market saw the group resort to increasing its level of raw material stock to cater for any eventualities. This in-turn put pressure on our cash reserves. On the macro-economic front, the Kenya shilling weakened against foreign currencies and the rate of inflation rose causing more pressure on the pocket of our customers.

On the taxation front, the Kenyan government introduced excise duty on a major category of our raw materials which further saw the increase in our cost of sales. We also saw the withdrawal of the tax incentive measures that had been instituted as a stimulus package following the outbreak of Covid-19 pandemic.

On performance, the group's turnover for the year ended 31 December 2021 grew by 17% (KShs 1.54 billion) to KShs 10.7 billion in comparison with year 2020 which had a 7% (KShs 588 million) increase to KShs 9.2 billion against the year 2019. Similarly, the operating profit before tax, for year ended 31 December 2021 rose by 30% (KShs 262 million) to KShs 1.1 billion compared to the year ended 31 December 2020 where a 63% (KShs 335 million) growth to KShs 863 million was attained against the year ended 31 December 2019. The increase in turnover was offset by an increase in cost of sales and the general increase in operating costs due to price inflation.

Digital Strategy and Product Innovation

The outbreak of COVID-19 pandemic led to restrictive movement of people, and it was important to employ technology to enhance sales. Digital transformation strategy was the nerve centre for Crown Paints by ensuring products and services were provided to our customers uninterrupted. We maintained market leadership particularly premium paint by 65% market share and employed data driven matrices by

GROUP CHIEF EXECUTIVE OFFICER STATEMENT (Continued)

ensuring effective internal controls and efficiencies when processing customer orders to enhance service delivery. On product innovation, we introduced granite, new generation of environment-friendly, water-proof and high efficiency stone imitation paint targeting contractors, quantity surveyors, architects and homeowners who desire a premium finish without mining any stone mountains and saving natural resources.

This was informed by data from the 2021 Economic Survey which showed the country's construction industry registered a double-digit growth rate of about 12 percent as the sector remained largely uninterrupted despite the prevailing Corona virus pandemic.

Our People and Communities

Crown Paints as a brand thrives entirely on the communities we serve. During this difficult period our members of staff continued to show enthusiasm for work despite the rampant cases of the infection. As a responsible organization we ensured COVID-19 protocols as per Government regulations were strictly adhered to. We safeguarded work environment, enhanced social distancing and most importantly mask wearing. Despite all these efforts a few employees however, still got infected, but this didn't dampen the spirit of our dedicated staff who ensured customers' needs were met.

On community empowerment, as the country was still reeling in the effects of COVID-19 pandemic, we continued carrying out several relief programs by donating foodstuff and hygiene essentials to different vulnerable groups of people. The most affected individuals particularly in the informal settlements were part of the people we reached out to help. As a brand we believe in the well-being of the communities we operate in and we went the extra mile to extend a helping hand to rebuilt the lives of those who lost their livelihoods due to COVID-19. We also continued training and empowering our painters through the Team Kubwa painter loyalty program.

Future Outlook

Politically, Kenya faces general elections in August 2022, though the country is experiencing relative calm, elections always stalls economic growth as people's

purchasing power tend to slow down. For the year ahead, after adapting to the lessons learnt from the pandemic, we have redefined innovative approaches of doing business in respect of the focus on the wellbeing of our employees, how to cope with new multifaceted challenges, the use of virtual environment and positioning of information technology to drive our business. Our company shall continue to assess its position to ensure that the core strengths of our brand and our network of stakeholders remain robust to continue delivery of modest return to our shareholders.

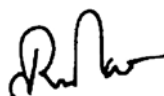
The board of directors remains committed to ensuring that the business remains responsive to the needs of the communities in which we operate in, not only for business reasons but for the environmental and social purposes to achieve a sustainable business. The board also recognizes the vital role the Crown Paints personnel play towards achieving its goals and to this end it has remained committed to the betterment of the employee welfare.

Customer needs and demand remain diverse, as we face the future and to remain in business, there is need to be more innovative and responsive to customer needs and preferences and being cognizant of the activities of the competition. In regard to this, Crown Paints will work tirelessly to enhance the capacities of technology, product research and procurement to ensure effective response to any new trends in the market.

Conclusion

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

Thank you and God bless you all.



.....
Dr. Rakesh Rao
Group Chief Executive Officer
16th May 2022

KASARANI PRIMARY

We are proud to partner with Kingsway Tyres Kenya and Embassy of Hungary, Nairobi, Kenya to revamp and contribute to outdoor facilities at Kasarani primary school playground with re-used tires, the first of its kind in a public primary school, in a bid to conserve the environment and put a smile on the little one's faces.



Pupils at Kasarani Primary School enjoying the newly launched playground.

From (L-R) Lt. Gen Mohamed Badi-NMS; H.E Zsolt Meszaros- Amb of the Embassy of Hungary in Nairobi; Dr Rakesh Rao- Group CEO Crown Paints Kenya Plc and H.E. Tristan Azbej – State Secretary.



GIGIRI POLICE STATION

Crown Paints has partnered with the U.S. Embassy in Nairobi to transform the Exterior of Gigiri Police Station using Crown Silicone Extreme Anti-Dust Paint. The project was launched on 6th July 2021 by Crown Paints Group CEO Dr. Rakesh Rao and D. Ryan Williams, Attaché Embassy Vise Consul Overseas Criminal Investigations. The partnership will go a long way in enhancing the image of the police station by creating a positive ambience not only for the police officers but also for those who may seek services at the station.

WORLD BLOOD DONOR DAY

World Blood Donor Day is celebrated on Karl Landsteiner's birthday, 14th June 1868 – 26th June 1943. He was an Austrian biologist, physician and immunologist. He distinguished the main blood groups in 1900, having developed the modern system of classification of blood groups from his identification of the presence of agglutinins in the blood, and in 1937 identified, with Alexander S. Wiener, the Rhesus factor, thus enabling physicians to transfuse blood without endangering the patient's life.

Crown Paints Kenya Plc donated 60 Litres of sanitizers to be used during the blood donation drive that run for five days from 14th June to 18th June 2021. The donation was made by Group Human Resource Manager, Nicholas Wanambisi, to St Johns Ambulance CEO, Mrs Alome Atayo. The occasion was graced by the PS Ministry of Health, Susan Mochache, at Uhuru Park.



IFTAR FOOD DONATION

Ramadhan is the most important period of the year for Muslims with a month marked by gratitude, prayer, family and community. Crown Paints Kenya Plc partnered with various organisations in support of the IFTAR Ramadhan Programme for the elderly and vulnerable families.



Crown Paints Kenya Plc, in partnership with muslim-based radio station, IQRA Radio, based in Nairobi to announce the 'Crown Iftar' initiative with the aim of providing Iftar food packs for 30 vulnerable muslim families whilst educating the community and re-emphasizing on the Covid-19 Guidelines put in place by the MOH.

It was all smiles for children at Mama Fauzia Children's Home as they received Crown Iftar food donation during the holy month of Ramadhan.



MOYO PRIMARY SCHOOL

Moyo Primary School located in Amboseli was built to provide a learning facility for students who were studying under a tree. Crown Paints partnered with Moyo Outreach Programme in the following ways:

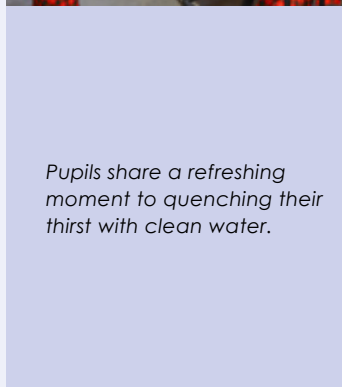
- Painting of classrooms
- Donation of water tanks
- Donation of desks



Pupils enjoy learning in the new classroom away from the harsh weather conditions.



Group Human Resource Manager, Nicholas Wanambisi, joins in the song and dance to celebrate the opening ceremony of Moyo Primary School.



Pupils share a refreshing moment to quenching their thirst with clean water.



Before



After

Introduction

Corporate governance is the system of rules, practices, and processes by which the organization is directed and controlled. The Corporate Governance Code sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders. Beyond the standards set by the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public in Kenya, Crown Paints Kenya Plc (Crown), has established and maintained its own Code of business conduct.

It is Crown's aspiration to reach the highest standards of Corporate Governance, by emphasizing on transparency, creating a sustainable culture and setting industry-leading benchmarks. The Crown Corporate Governance philosophy is built on ethical and transparent business operations in-order to foster an organizational culture that focuses on performance and organizational health.

The culture ensures trust among all stakeholders and strengthens the Board and management accountability. It is from this practice of responsible governance that we continue to achieve sustainable growth and meet the aspirations of our stakeholders while fulfilling societal expectations.

The sound governance processes and systems guide Crown on its journey towards continued success. Some of the principles include, integrity, execution excellence, customer orientation, fairness, accountability, responsibility, transparency, and social responsibility.

Governing Body of Crown Paints Kenya Plc

The supreme decision-making body of Crown is the Annual General Meeting of Shareholders. The Board of Directors (the Board) is responsible for the management. The main governance structure comprises of the Board, Committees of the Board and Management who have an assisting and supporting role.

The Board of Directors

Crown does recognize and embrace the need of a diverse Board to ensure its success. The board

does have leverage from the difference in thought, perspective, knowledge, skill and industry experience, which enriches the Board discussions and decision making. The Board has a mix of Executive and Non-Executive Directors who have considerable expertise in their respective fields including competencies required in context of the company's businesses.

At Crown, the Board, is responsible for establishing the broad corporate policies, set strategic direction, and oversee company's management of the day-to-day operations. To fulfill this role, each director exercise's his or her good faith in making business judgment to the best interests of Crown. The operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board.

As on the date of this Report, the Board comprised of Seven (7) members, three (3) of which are executive directors, three (3) independent non-executive directors and one (1) non-executive director (Chairman).

Board Procedures and Flow of Information

The Board meets quarterly to review the performance of the company (financial results/statements, compliance report, regulatory developments, significant transactions and risk management) and any other proposal from the management. Additional meetings are held whenever necessary. In case of matters requiring urgent approval of the Board, resolutions are passed through circulation.

The Chairman of the Board together with the Company Secretary determine the agenda for every meeting in consultation with the Chief Executive Officer. The Board has unrestricted access to all company-related information. The agenda for the meetings is circulated well in advance to the directors to ensure that sufficient time is provided to directors to prepare for the meeting. On need basis, company officials are invited to attend meetings of the Board and make presentations to the Board on matters including but not limited to the company's performance.

CORPORATE **GOVERNANCE (Continued)**

Responsibilities

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

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

Independent non-executive directors' business relationship with the company

The directors are independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company. They have a responsibility to ensure that the business strategy and operations are fully discussed and critically reviewed. They have no service contracts with the company but have letters of appointment which stipulates the terms of their appointment. Any fees payable to them annually is in accordance with the applicable laws and with the approval of the shareholders as disclosed under the directors' remuneration report.

Composition of the Board

The Nomination and Remuneration Committee determines the composition of the Board based on the need and requirements of the company from time to time. It identifies the person as potential candidate, qualified to be appointed as director and recommends to the Board for their appointment. The Directors are then re-elected by the shareholders at the annual general meetings and are due for retirement by rotation in accordance with the company's Articles of Association. The current composition of the Board is given on page 21.

Board Committees

The Board has constituted various Committees with specific terms of reference. The Board periodically reviews the composition and terms of reference of its committees in order to comply with any amendments/ modifications to the provisions relating to composition of Committees.

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

a) Audit and Risk Committee

The committee consists entirely of the independent non-executive directors as confirmed by the Board upon appointment. The Committee meets the Statutory Auditors and the Chief Internal Auditor independently without the presence of any members of the management at least once in a year. The members are deemed to be financially literate and have the requisite understanding, ability and experience to qualify as "audit committee financial experts" within the meaning set forth under the CMA code.

It reports to the Board and among its functions include:

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

b) Nomination and Remuneration Committee

This committee is chaired by an independent non-executive director. It is responsible for:

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

c) Special committees

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

CORPORATE **GOVERNANCE (Continued)**

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services is disclosed in Note 9, page 80 to the financial statements. No arrangements exist whereby a director could acquire company shares on beneficial terms.

Communication with Stakeholders

The company promptly discloses information on material corporate developments and other events as required under Listing Regulations. Such timely disclosures are an indicator of the company's good corporate governance practices.

a. Publication of results

Half-yearly and annual financial results of the company are published in leading newspapers.

b. Website and news releases

In compliance with the Listing Regulations, a separate dedicated section under 'Investors' on the company's website gives information on various announcements made by the company (Annual report and half year financial results along with the applicable policies of the company). The company's website is <https://www.crownpaints.co.ke/>.

c. Regulators

The company makes timely disclosures of necessary information to Capital Markets Authority and the Nairobi Securities Exchange (NSE) in terms of the Listing Regulations and other applicable rules and regulations issued.

d. Shareholders

Letters and emails are sent to shareholders concerning, their dividends, annual general meetings and any other information that the company may require.

FINANCIAL STATEMENTS



CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2021

PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

BANKERS

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

NCBA Bank Kenya Plc
P.O. Box 30437 - 00100
Nairobi.

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

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

Bank of Africa Kenya Limited
P.O. Box 69562 - 00400
Nairobi.

SOLICITORS

Kairu Mbutia Law LLP
Applewood Adams, 13th Floor
Office Suite No. 1308, Ngong Road
P.O. Box 6574 - 00100
Nairobi.

SECRETARY

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

REGISTRARS

Custody and Registrar Services Ltd
IKM Place, Tower B, 1st Floor
5th Ngong Avenue, off Bishops Road
P.O. Box 8484 00100
Nairobi

AUDITORS

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2021

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, which show the state of the affairs of Crown Paints Kenya Plc ("the company") and Subsidiaries (together, "the group").

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public limited company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 20.

2. PRINCIPAL ACTIVITIES

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

3. GROUP RESULTS

The results for the year are set out on page 35.

4. COMPANY RESULTS

The results for the year are set out on page 39.

5. DIVIDENDS

Subject to approval by the shareholders, the directors recommend a first and final dividend of KShs 4.00 (2020: Nil) per share totalling to KShs 569 million for the year ended 31 December 2021 (2020: Nil).

6. FINANCIAL STATEMENTS

Except as indicated in Note 34 to the financial statements, the directors are not aware of any circumstances, which would render the values attributed to assets and liabilities in the financial statements of the group and the company not as stated in the financial statements.

7. RESERVES

The reserves of the group and the company are set out in Note 12.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

8. DIRECTORS

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

Mhamud Charania	-	Chairman (Non-executive)	
Rakesh K. Rao	-	Chief Executive Officer	
Patrick M. Mwati	-	Executive	
Hussein H.R.J. Charania	-	Executive	
Steven Bwire Oundo	-	Non-executive	
Nicholas Kathiari	-	Non-executive	- Appointed 1 February 2021
Alice Owuor	-	Non-executive	- Appointed 1 February 2021

9. BUSINESS REVIEW

Following the outbreak of the COVID-19 pandemic in 2020, the epidemic continued to present significant challenges in 2021 to the health and business sectors. The measures that had been instituted to control its spread remained in place but were relaxed as the year progressed. The strengths of Crown Paints brand and our network of stakeholders and their resilience continued to yield better returns and this is hoped to remain into the foreseeable future.

The group's turnover for the year ended 31 December 2021 grew by 17% (KShs1.54 billion) to KShs 10.7 billion in comparison with year 2020 which had a 7% (KShs 588 million) increase to KShs 9.2 billion against the year 2019. Similarly, the operating profit before tax, for year ended 31 December 2021 rose by 30% (KShs 262 million) to KShs 1.1 billion compared to the year ended 31 December 2020 where a 63% (KShs 335 million) growth to KShs 863 million was attained against the year ended 31 December 2019. The increase in turnover was offset by an increase in cost of sales and the general increase in operating costs due to price inflation.

The social and economic challenges that followed the Covid-19 containment measures in 2020 spilled into the year 2021. This did not favour business as the cost of doing business rose even higher than that for the year 2020 with the price of raw materials increasing due to constraints in the supply chain. The turbulence in the raw material market saw the group resort to increasing its level of raw material stock to cater for any eventualities. This in-turn put pressure on our cash reserves. On the macro-economic front, the Kenya shilling weakened against foreign currencies and the rate of inflation rose causing more pressure on the pocket of our customers.

On the taxation front, the Kenyan government introduced excise duty on a major category of our raw materials which further saw the increase in our cost of sales. We also saw the withdrawal of the tax incentive measures that had been instituted as a stimulus package following the outbreak of Covid-19 pandemic.

Politically, during 2021 the region was generally stable, however, we observed signs of early campaigns in Kenya which is expected to continue into the year 2022 ahead of the general elections in August 2022.

For the year ahead, after adapting to the lessons learnt from the pandemic, we have redefined innovative approaches of doing business in respect of the focus on the well being of our

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

9. BUSINESS REVIEW (continued)

employees, how to cope with new multifaceted challenges, the use of virtual environment and positioning of information technology to drive our business. Our company shall continue to assess its position to ensure that the core strengths of our brand and our network of stakeholders remain robust to continue delivery of modest return to our shareholders.

The board of directors remains committed to ensuring that the business remains responsive to the needs of the communities in which we operate in, not only for business reasons but for the environmental and social purposes to achieve a sustainable business. The board also recognises the vital role the crown paints employees play towards achieving its goals and to this end it has remained committed to the betterment of the employee welfare.

Compliance and risk management is core for the Board at Crown Paints. Compliance to the laid out statutory and regulatory frameworks is key in the conduct of our business. In addition, the conduct of business both inside and outside the organisation upholds high level of integrity. Risk management practises that identify and ensure management proactively deals with the risks continue to be followed.

To face the future and remain in business, there is need to be aware and responsive to customer needs and preferences and being cognisant of the activities of the competition. In regard to this, the Board has enhanced the capacities of the Information Communication & Technology (ICT), Product Research and Development and Procurement departments to ensure effective response to any new trends.

Below are some of the risks;

Risk		Mitigation
Strategic		
	Regulatory Environment	<ul style="list-style-type: none"> The group ensures that its products meet the regulatory requirements. The group engages regulatory authorities to ensure compliance. The group actively participates with other stakeholders in building relationships with the regulatory authorities.
	The group is expected to comply with all regulatory bodies and governments' requirements.	
	Competition	<ul style="list-style-type: none"> The group through its research and development team is continuously developing its products to meet the market demands. The group continuously monitors the market for the entry of new players and the threat that they offer.
	The paint industry has become ever more competitive both in terms of the products and players.	
	Economic / Political	<ul style="list-style-type: none"> The group monitors the environment and takes measures to mitigate the risks identified
	The political environment in the countries we operate in, greatly influences the economic performance.	

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

9. BUSINESS REVIEW (continued)

Risk		Mitigation
Strategic (continued)	Supply Chain and Logistics	<ul style="list-style-type: none">The group enters into agreements with key suppliers on supply priorities.The group maintains credit worthiness and observes payment terms.
	With the disruption of business supply chain, there is a need to ensure that the business remains operational, and products get to the customers.	
Operational		<ul style="list-style-type: none">The group ensures that its operating systems are updated and protected from external threats.
	Technological	
	Changes in technology are continuous threat to the operations.	

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

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

- there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and,
- the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

11. TERMS OF APPOINTMENT OF THE AUDITOR

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

12. GOING CONCERN

The directors have made an assessment of the group's and the company's ability to continue as a going concern and are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 34, the subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the separate and consolidated financial statements.

By Order of the Board
Conrad Nyukuri



Secretary
28th April 2022

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

- i. designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. selecting suitable accounting policies and applying them consistently; and
- iii. making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the group's and the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 34, the subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the separate and consolidated financial statements.

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

Approved by the board of directors on 28th April 2022 and signed on its behalf by:



.....
Rakesh K. Rao
Group Chief Executive Officer



.....
Patrick Mwati
Group Finance Director

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

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

Executive Directors

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

Non-Executive Directors

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

The fees are approved by shareholders at Annual General Meetings.

Contract of service

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

The executive directors have employment contracts with the company.

The table below shows the executive and the non-executive directors' emoluments in respect of qualifying services for the year ended 31 December 2021. The aggregate directors' emoluments are disclosed in notes 9 and 22.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

DIRECTORS' REMUNERATION REPORT (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31 DECEMBER 2021

Director	Role	Category	Gross earnings including pension contribution KShs	Annual bonus KShs	Sitting allowances KShs	Other benefits* KShs	Total KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	727,392	6,836,784
Hussein H.R.J Charania	Vice- chairman	Executive	48,743,900	4,060,000	-	4,815,456	57,619,356
Rakesh K. Rao	Chief Executive Officer	Executive	40,580,900	3,380,000	-	7,205,624	51,166,524
Patrick M. Mwati	Finance Director	Executive	36,900,500	2,850,000	-	6,107,326	45,857,826
Stephen B. Oundo	Director	Non- executive	858,000	-	1,571,350	-	2,429,350
Nicholas Kathari	Director	Non- executive	722,000	-	1,964,200	-	2,686,200
Alice Owur	Director	Non- executive	721,600	-	1,571,350	-	2,292,950
Total			134,636,292	10,290,000	5,106,900	18,855,798	168,888,990

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
DIRECTORS' REMUNERATION REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

31 DECEMBER 2020

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

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



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www.ey.com
LLP/2015/52

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

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated and separate financial statements of Crown Paints Kenya Plc (the "company") and its subsidiaries (together, the "group") set out on pages 34 to 108, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Crown Paints Kenya Plc as at 31 December 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

Partners: C O Atinda, M M Kimoni, A K Gichuhi, A M Muthusi, J M Ngong'a,
F N M Kamau, N M Muhoya, T O Nyakoe, C A Munda, C N Kirathe, H Nannyomo, D Mugisha.
A member firm of Ernst & Young Global Limited.
Licensed by ICPAK as a Limited Liability Partnership of Certified Public Accountants.

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

Key audit matter	How our audit addressed the key matter
<p>Impairment consideration of investment in the subsidiaries</p> <p>As disclosed in note 6 to the financial statements, the company has an investment in subsidiaries totalling KShs 1.8 billion as at 31 December 2021, representing 22% of the total assets of the company. The subsidiaries have been making losses in the past. In 2020, Crown Paints Tanzania Limited and Regal Paints Uganda Limited broke even with Regal Paints Uganda Limited returning a profit. In the current year, the 2 subsidiaries reported losses whereas Crown Paints Rwanda Limited and Crown Paints Allied Industries Limited remained profitable. The summary of financial performance and financial position of the subsidiaries is further disclosed in note 34 to the financial statements.</p> <p>We focused on the impairment of the investment in the subsidiary companies due to their significance as discussed below:</p> <ul style="list-style-type: none"> • The investment in subsidiaries is material to the financial statements of the company. • The subsidiaries have been loss making in the past and rely on the parent company for provision of working capital. <p>We also focussed on the adequacy of the disclosures of investment in subsidiaries in Note 6 and status of the subsidiary companies in Note 34 to the financial statements, which are significant to the understanding of the amounts invested in the subsidiaries and the status of these subsidiaries.</p> <p>Given that significant judgement has been made by management in determining the expected future cash-inflows, discounting rate, control premium and terminal growth rate in perpetuity of the cashflows and the fact that the disclosures are important to the users' understanding of the financial statements we have considered this as a key audit matter.</p>	<p>We carried out procedures to understand management's process for identifying impairment triggers and considered management's assessment of impairment for individual investments. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used.</p> <p>We evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation such as projections of sales volume and selling prices, gross margin and discount rates. We involved EY internal specialists, the Strategy and Transactions (SaT) team, in the review of the assumptions made by management.</p> <p>We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances.</p> <p>We reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due.</p> <p>We assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with IFRS disclosure requirements.</p>



Other Information

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

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

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

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

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

- i) in our opinion, the information given in the report of the directors on pages 21 to 24 is consistent with the consolidated and separate financial statements.
- ii) in our opinion, the auditable part of directors' remuneration report on pages 26 to 28 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Churchill Atinda, Practising Certificate Number 1425.

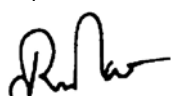
For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya

27th May 2022

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 KShs'000	2020 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,781,819	1,497,240
Right of use assets	5	280,386	213,362
Intangible assets	4	73,567	59,841
Deferred tax	14	-	39,178
		2,135,772	1,809,621
CURRENT ASSETS			
Inventories	7	3,322,838	1,908,397
Trade and other receivables	8	1,637,231	1,370,195
Amounts due from related companies	9(i)	231	104,136
Cash and bank balances	28	676,874	334,139
Current tax recoverable	10	34,402	104,374
		5,671,576	3,821,241
TOTAL ASSETS		7,807,348	5,630,862
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	711,810	355,905
Reserves	12	2,718,379	1,553,605
		3,430,189	1,909,510
NON-CURRENT LIABILITIES			
Lease liability	30	115,160	127,132
Bank loans	16	215,612	377,088
Deferred tax	14	8,056	-
		338,828	504,220
CURRENT LIABILITIES			
Lease liability	30	177,456	79,940
Bank overdraft	15	15,053	30,291
Bank loans	16	302,209	430,234
Short term notes	17	527,574	510,881
Amounts due to related companies	9(ii)	67,326	44,019
Trade and other payables	18	2,921,832	2,113,852
Provisions	29(b)	17,411	7,915
Current tax payable	10	9,470	-
		4,038,331	3,217,132
TOTAL EQUITY AND LIABILITIES		7,807,348	5,630,862

The financial statements were approved by the Board of Directors on 28th April 2022 and signed on its behalf by:



.....
Rakesh K. Rao
Group Chief Executive Officer



.....
Patrick Mwati
Group Finance Director

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs'000	2020 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	10,733,180	9,191,704
COST OF SALES	20	(6,390,581)	(5,272,474)
GROSS PROFIT		4,342,599	3,919,230
OTHER INCOME	21	375,889	317,251
		4,718,488	4,236,481
EXPENSES			
Net allowance for expected credit losses third party	8	132,858	208,223
Net allowance for expected credit losses related parties	9	(92,365)	(128,505)
Administration and establishment	22	(2,010,016)	(2,156,208)
Selling and distribution	23	(1,441,280)	(1,055,139)
Finance costs	24	(183,285)	(241,966)
		(3,594,088)	(3,373,595)
PROFIT BEFORE TAX	26	1,124,400	862,886
TAX EXPENSE	10	(393,170)	(263,381)
PROFIT OF THE YEAR		731,230	599,505
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		12,604	2,695
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		12,604	2,695
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain on property, plant and equipment		120,697	-
Deferred income tax on revaluation		(11,680)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		109,017	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		121,621	2,695
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		852,851	602,200
ATTRIBUTABLE TO:			
Owners of the parent		852,851	602,200
Non-controlling interest		-	-
		852,851	602,200
Basic and diluted earnings per share (KShs)		6.85	8.42

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	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 2020	355,905	80,174	61,591	86,811	722,829	1,307,310
Profit for the year	-	-	-	-	599,505	599,505
Other comprehensive income	-	-	-	2,695	-	2,695
Total comprehensive income	-	-	-	2,695	599,505	602,200
Transfer of revaluation reserve on disposal	-	-	(763)	-	763	-
Transfer of excess depreciation - 2020	-	-	(17,335)	-	17,335	-
At 31 December 2020	355,905	80,174	43,493	89,506	1,340,432	1,909,510
At 1 January 2021	355,905	80,174	43,493	89,506	1,340,432	1,909,510
Profit for the year	-	-	-	-	731,230	731,230
Other comprehensive income	-	-	109,017	12,604	-	121,621
Total comprehensive income	-	-	109,017	12,604	731,230	852,851
Issue of share capital	355,905	355,905	-	-	-	711,810
Transaction costs	-	(43,982)	-	-	-	(43,982)
Transfer of revaluation reserve on disposal	-	-	(359)	-	359	-
Transfer of excess depreciation - 2021	-	-	(34,680)	-	34,680	-
At 31 December 2021	711,810	392,097	117,471	102,110	2,106,701	3,430,189

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

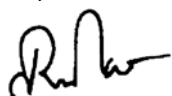
FOR THE YEAR ENDED 31 DECEMBER 2021

OPERATING ACTIVITIES	Notes	2021 KShs'000	2020 KShs'000
Profit before tax		1,124,400	862,886
Adjustments for: -			
Depreciation on property, plant and equipment	3	199,443	211,125
Amortisation of intangible assets	4	20,799	17,211
Amortisation on right of use assets	5	155,895	118,650
Unrealised foreign exchange loss		25,553	17,749
Unrealised foreign exchange gain		(7,375)	(9,700)
Reversal of impairment on property, plant and equipment	3	(55,772)	-
Interest expense	24	183,285	241,966
Interest income	21	(8,433)	(11,122)
Allowance for bad debts – third parties	8	96,762	59,634
Allowance for bad debts – related parties	9	103,642	131,631
Bad debts written off	23	50,755	21,825
Increase / (decrease) in leave accrual	21 & 25	7,349	(2,687)
Inventory write-down	7	42,988	34,518
Reversals of inventory write down	7	(22,555)	(24,707)
Loss / (gain) on lease termination	21 & 22	5,679	(6,543)
Rent concession	21	-	(2,293)
Provision for legal cases	29 (b)	9,496	(7,765)
Loss / (gain) on disposal of property, plant and equipment		498	(1,155)
Operating profit before working capital changes		1,932,409	1,651,223
Increase in trade and other receivables		(414,554)	(227,637)
Increase in inventories		(1,434,873)	(65,053)
Increase in trade and other payables		782,453	337,052
Decrease / (increase) in amounts due from related parties		262	(148,090)
Increase in amounts due to related parties		23,307	27,521
Cash generated from operations		889,004	1,575,016
Income tax paid	10	(278,674)	(352,214)
Interest received	21	8,433	11,122
Interest paid		(148,848)	(174,626)
Net cash generated from operating activities		469,915	1,059,298
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(302,558)	(143,752)
Purchase of intangible assets	4	(34,449)	(26,320)
Proceeds on sale of property, plant and equipment		3,784	2,034
Net cash used in investing activities		(333,223)	(168,038)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,192,951	1,078,706
Repayment of bank loans	16	(1,481,331)	(1,371,587)
Proceeds from short term notes	17	15,819	55,063
Repayments of short term notes	17	(33,563)	(636,666)
Proceeds from issue of shares		711,810	-
Transaction costs on issue of shares		(43,982)	-
Lease liability payments principal portion		(146,632)	(118,075)
Net cash generated from / (used in) financing activities		215,072	(992,559)
Net increase / (decrease) in cash and cash equivalents		351,766	(101,299)
Cash and cash equivalents at the beginning of the year		303,848	389,243
Effect of exchange rate changes on cash and cash equivalents		6,209	15,904
Cash and cash equivalents at the end of the year	17	661,821	303,848

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

ASSETS	Notes	2021 KShs'000	2020 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,469,273	1,230,721
Intangible assets	4	69,447	56,158
Investment in subsidiary companies	6	1,014,277	1,019,277
Right to use assets	5	167,391	153,754
Deferred tax	14	-	39,178
		2,720,388	2,499,088
CURRENT ASSETS			
Inventories	7	2,767,651	1,453,448
Trade and other receivables	8	1,316,334	1,079,370
Amounts due from related parties	9(i)	40,939	175,701
Current tax recoverable	10	-	75,131
Cash and bank balances	28	538,607	242,339
		4,663,531	3,025,989
TOTAL ASSETS		7,383,919	5,525,077
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	711,810	355,905
Reserves	12	3,006,283	2,000,428
		3,718,093	2,356,333
NON CURRENT LIABILITIES			
Lease liability	30	104,419	106,889
Bank loans	16	150,046	283,231
Deferred tax	14	8,056	-
		262,521	390,120
CURRENT LIABILITIES			
Lease liability	30	73,208	43,204
Bank overdraft	15	8,297	30,291
Bank loans	16	246,724	411,113
Short term notes	17	527,574	510,881
Trade and other payables	18	2,430,994	1,725,319
Provisions	29 (b)	17,411	7,915
Tax payable	10	9,470	-
Amounts due to related parties	9(ii)	89,627	49,901
		3,403,305	2,778,624
TOTAL EQUITY AND LIABILITIES		7,383,919	5,525,077

The financial statements were approved by the Board of Directors on 28th April 2022 and signed on its behalf by:



.....
Rakesh K. Rao
Group Chief Executive Officer



.....
Patrick Mwati
Group Finance Director

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
COMPANY STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs'000	2020 KShs'000
REVENUE	19	9,656,216	8,401,195
COST OF SALES	20	(5,687,963)	(4,800,185)
GROSS PROFIT		3,968,253	3,601,010
OTHER INCOME	21	231,245	146,707
		4,199,498	3,747,717
EXPENSES: -			
Net allowance for expected credit losses third party	8	79,500	189,267
Net allowance for expected credit losses related parties	9	(182,891)	(154,272)
Administration and establishment	22	(1,657,871)	(1,884,257)
Selling and distribution	23	(1,210,994)	(889,446)
Finance costs	24	(166,802)	(211,912)
Impairment loss on investment in subsidiaries	6	(5,000)	(116,927)
		(3,144,058)	(3,067,547)
PROFIT BEFORE TAX	26	1,055,440	680,170
TAX EXPENSE	10	(388,763)	(260,932)
PROFIT FOR THE YEAR		666,677	419,238
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Revaluation gain on property, plant and equipment		38,935	-
Deferred tax on revaluation		(11,680)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		27,255	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		27,255	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		693,932	419,238
Basic and diluted earnings per share (KShs)	27	6.24	5.89

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2020	355,905	80,174	102,317	1,398,699	1,937,095
Profit for the year	-	-	-	419,238	419,238
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	419,238	419,238
Transfer of revaluation reserve on disposal	-	-	(763)	763	-
Transfer of excess depreciation - 2020	-	-	(17,335)	17,335	-
At 31 December 2020	355,905	80,174	84,219	1,836,035	2,356,333
At 1 January 2021	355,905	80,174	84,219	1,836,035	2,356,333
Profit for the year	-	-	-	666,677	666,677
Other comprehensive income	-	-	27,255	-	27,255
Total comprehensive income	-	-	27,255	666,677	693,932
Issue of share capital	355,905	355,905	-	-	711,810
Transaction costs	-	(43,982)	-	-	(43,982)
Transfer of revaluation reserve on disposal	-	-	(359)	359	-
Transfer of excess depreciation - 2021	-	-	(27,695)	27,695	-
At 31 December 2021	711,810	392,097	83,420	2,530,766	3,718,093

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

OPERATING ACTIVITIES	Notes	2021 KShs'000	2020 KShs'000
Profit before tax		1,055,440	680,170
Adjustments for: -			
Depreciation on property, plant and equipment	3	148,748	159,329
Amortisation of intangible assets	4	19,254	14,909
Amortisation on right of use assets	5	92,672	59,723
Unrealised foreign exchange loss		4,449	15,909
Unrealised foreign exchange gain	3	(92,708)	-
Reversal of impairment on property, plant and equipment	24	166,802	211,912
Interest expense	21	(581)	(876)
Interest income	8	94,435	56,665
Allowance for bad debts – third parties	9	198,849	231,862
Allowance for bad debts – related parties	23	6,048	9,801
Bad debts written off	6	5,000	116,927
Increase / (decrease) in leave accrual	21	7,367	(2,687)
Inventory write-down	7	38,051	28,220
Reversals of inventory write down	7	(22,459)	(24,448)
Loss / (gain) on lease termination	21 & 22	5,679	(6,543)
Rent concession	21	-	(1,858)
Provision for legal cases	29(b)	9,496	(7,765)
Loss / (gain) on disposal of property, plant and equipment	22	706	137
Operating profit before working capital changes		1,737,248	1,541,387
Increase in trade and other receivables		(337,446)	(194,486)
Increase in inventories		(1,329,797)	(24,942)
Increase in trade and other payables		692,232	281,969
Decrease / (increase) in amounts due from related parties		(64,087)	(296,668)
Increase in amounts due to related parties		39,726	7,540
Cash generated from operations		737,876	1,314,800
Income tax paid	10	(268,608)	(339,671)
Interest received	21	581	876
Interest paid		(132,097)	(152,640)
Net cash generated from operating activities		337,752	823,365
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(259,871)	(129,081)
Purchase of intangible assets	4	(32,543)	(25,720)
Proceeds on sale of property, plant and equipment		3,509	1,011
Net cash used in investing activities		(288,905)	(153,790)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,125,075	1,078,706
Repayment of bank loans	16	(1,422,918)	(1,206,182)
Proceeds from short term notes	17	15,819	55,063
Repayments of short term notes	17	(33,563)	(636,666)
Proceeds from issue of shares		711,810	-
Transaction costs on issue of shares		(43,982)	-
Lease liability payments principal portion		(84,454)	(52,760)
Net cash generated from / (used in) financing activities		267,787	(761,839)
Net increase / (decrease) in cash and cash equivalents		316,634	(92,264)
Cash and cash equivalents at the beginning of the year		212,048	296,287
Effect of exchange rate changes on cash and cash equivalents		1,628	8,025
Cash and cash equivalents at the end of the year	28	530,310	212,048



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CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended standards, interpretations and improvements effective as of 1 January 2021 and 1 April 2021. The group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The new standards and amendments effective of as of 1 January 2021 and 1 April 2021 are listed below:

- Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16
- Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

Amendment to IFRS 16 - Covid-19-Related Rent Concessions beyond 30 June 2021

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective for annual periods beginning on or after 1 April 2021, with earlier application permitted. Lessees will apply the amendment retrospectively, recognising the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which they first apply the amendment. The group elected to adopt the practical expedient in the previous year and the 2021 amendment on the applicable conditions had no impact on the financial statements as the rent concessions affected only payments due on or before 30 June 2022. Refer to note 30.

Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate,

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

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

Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)

- equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The amendment is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted and had no impact on the group's 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. These standards are not expected to have a material impact on the group's financial statements.

Effective for annual periods beginning on or after 1 January 2022

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

Effective for annual periods beginning on or after 1 January 2023

- IFRS 17 Insurance Contracts
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- Definition of Accounting Estimates - Amendments to IAS 8
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

Effective date postponed indefinitely

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

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

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

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

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2021.

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 consolidated financial statements 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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Basis of consolidation (continued)

the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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

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

c. Foreign currency transactions

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

i. Transactions and balances

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

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Foreign currency transactions (continued)

ii. Group companies

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

d. Revenue recognition

Revenue from contracts with customers

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

The group has generally concluded that it is the principal in its revenue arrangements, except for the Akzonobel South Africa (Pty) Limited contract where it is acting as an agent because it typically arranges for the goods or services provided by the latter and how they are transferred to the customer without taking control.

Sale of goods

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

The group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). The group provides a loyalty points program to its Team Kubwa painters whereby they are now able to convert accumulated loyalty points to instant MPESA redemption, KPLC and Naivas shopping vouchers. In determining the transaction price for the sale of the products, the company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

The Team Kubwa painters incentivise customers to purchase paint from the entity. The Team Kubwa painters themselves do not purchase the paint, thus these loyalty points are not accounted for under IFRS 15.

Sale of services

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Revenue recognition (continued)

Tolling fees

In 2017, AkzoNobel appointed Regal Paints Uganda Limited as a non-exclusive distributor, toll manufacturer and licensee to use the trademarks to manufacture, distribute, sell or supply the products in the Republic of Uganda on the terms of the signed Agreement. The tolling fee charged on manufacture of the Sadolin paint is recognised as other income in the statement of profit or loss.

Variable consideration

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

Rebates

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

Significant financing component

The group has no significant financing components from its customers.

e. Tax

Current income tax

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

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

Deferred tax

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Tax (continued)

Deferred tax (continued)

- 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.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Tax (continued)

Value added tax

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

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

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

f. Property, plant and equipment

All property, plant and equipment are initially 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 and Work-in-progress (WIP), are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- f. Property, plant and equipment (continued)
the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

Land is stated at cost less any accumulated impairment losses.

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

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

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

Group as a lessee

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

- i. Right-of-use assets

The group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Right-of-use assets (continued)

Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2 (r) (i) and 2 (r) (ii), significant accounting judgments and key sources of estimation uncertainty, impairment of non-financial assets.

ii. Lease liabilities

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

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

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

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

Group as a lessor

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Borrowing costs

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

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

i. Intangible assets

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

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

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

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

Derecognition of intangible assets

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

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

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

j. Financial instruments – initial recognition and subsequent measurement

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- j. Financial instruments – initial recognition and subsequent measurement (continued)
- i. Financial assets

Initial recognition and measurement

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

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

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

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.

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

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- j. Financial instruments – initial recognition and subsequent measurement (continued)
- i. Financial assets (continued)

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

Financial assets at fair value through OCI (debt instruments)

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

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i. Financial assets (continued)

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and

interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

Derecognition of financial assets

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- j. Financial instruments – initial recognition and subsequent measurement (continued)
- i. Financial assets (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

For trade receivables and bank balances, the group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors, banks and the economic environment. The group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The amount written off is recognised in the statement of profit of loss. Any reversal of provision for ECLs is recognised in the statement of profit or loss which is based on the established provision matrix.

- ii. Financial liabilities

Initial recognition and measurement

The group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- j. Financial instruments – initial recognition and subsequent measurement (continued)
- ii. Financial liabilities (continued)

Trade payables and amounts due to related parties

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

Loans and borrowings

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

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

Derecognition

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

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

- iii. Offsetting of financial instruments

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

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

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

- k. Fair value of assets and liabilities

The group measures certain property, plant and equipment at fair value at each reporting date. The group has no financial instruments that are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Fair value of assets and liabilities (continued)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

l. Inventories

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

Raw materials

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Inventories (continued)

Finished goods and work-in-progress

Cost is determined on a weighted average basis and comprises cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

Allowance for obsolete inventories

Directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, directors make judgment as to whether the inventory item can be used as an input in production or is in saleable condition. Refer to Note 7 for disclosure on the obsolete inventory.

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

m. Impairment of non-financial assets

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Impairment of non-financial assets (continued)

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

n. Cash and cash equivalents

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

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

o. Provisions

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

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

p. Employee benefits

Defined contribution provident fund

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

Statutory pension scheme

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Employee benefits (continued)

Leave

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

Bonus

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

q. Dividends payable

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified by the shareholders in the Annual General Meeting.

r. Significant accounting judgements, estimates and assumptions

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

i. Judgements

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

Allowances for obsolete inventories

Directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, directors make judgment as to whether the inventory item can be used as an input in production or is in saleable condition. Refer to Note 7 for disclosure on the obsolete inventory.

Impairment of financial instruments

Impairment losses on financial assets-IFRS 9

The group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is based on the group's historical observed default rates. The group will revise the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Leases - estimating the incremental borrowing rate

The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the group's functional currency). The group's incremental borrowing rate is estimated at the group level and is based on the average rate of obtaining loans from commercial banks. The Management used 13% as the incremental borrowing rate.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward unused tax losses and the unused tax credits can be utilized. Refer to Note 14 for the disclosure on deferred tax.

Income taxes

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

Further details on income taxes are disclosed in Notes 10.

Going concern

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

- ii. Estimates and assumptions

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

Useful lives of property, plant and equipment

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

Further details on property, plant and equipment are given in Notes 2 (f) and 3.

Revaluation of certain classes of property, plant and equipment

The group carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. The group's leasehold buildings, plant, and machinery, motor vehicles, fixtures, fittings and equipment were revalued on 31 January 2021. The assets were valued on the basis market comparable approach and depreciated replacement cost approach by independent valuers, Sterling Valuers Limited. Further details on property, plant and equipment are given in Notes 2 (f) and 3.

Useful lives of intangible assets

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

Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Refer to Notes 3, 4 and 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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

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

Contingent liabilities

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2021

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2021	58,672	708,876	639,675	269,149	583,119	21,820	2,281,311
Additions	-	58,451	56,682	54,212	132,148	1,065	302,558
Transfer from WIP	-	-	-	6,816	6,559	(13,375)	-
Disposals	-	-	(2,766)	(4,856)	(2,788)	-	(10,410)
Elimination on revaluation**	-	(55,631)	(226,428)	(224,455)	(304,713)	-	(811,227)
Revaluation adjustment	-	(67,993)	26,630	148,281	13,779	-	120,697
(Impairment) / reversal of impairment	-	-	(16,502)	-	72,274	-	55,772
Exchange differences	-	214	10,270	3,620	4,203	(462)	17,845
At 31 December 2021	58,672	643,917	487,561	252,767	504,581	9,048	1,956,546
Accumulated depreciation							
At 1 January 2021	-	56,894	216,401	217,099	293,677	-	784,071
Charge for the year	-	12,913	40,839	54,500	91,191	-	199,443
Disposals	-	-	(1,445)	(2,005)	(2,678)	-	(6,128)
Elimination on revaluation**	-	(55,631)	(226,428)	(224,455)	(304,713)	-	(811,227)
Exchange differences	-	222	2,735	2,082	3,529	-	8,568
At 31 December 2021	-	14,398	32,102	47,221	81,006	-	174,727
Net carrying amount							
At 31 December 2021	58,672	629,519	455,459	205,546	423,575	9,048	1,781,819

* Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Tanzania. Work-in-Progress is not depreciated until the assets are completed and available for use i.e. when it is in location and condition necessary for it to be capable of operating in the manner intended by management.

**This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset. If all assets, except for freehold land and work in progress, were measured using the cost model, their carrying amounts would be as follows:

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	547,791	440,789	57,111	379,365	1,425,056

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) GROUP – Year ended 31 December 2020

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2021	47,752	701,661	569,654	256,653	507,304	22,186	2,105,210
Additions	10,920	6,966	51,060	10,544	60,784	3,478	143,752
Transfer from WIP	-	-	-	-	5,078	(5,078)	-
Disposals	-	-	-	(3,533)	(702)	-	(4,235)
Exchange differences	-	249	18,961	5,485	10,655	1,234	36,584
At 31 December 2021	58,672	708,876	639,675	269,149	583,119	21,820	2,281,311
Accumulated depreciation							
At 1 January 2021	-	41,929	162,377	156,192	198,967	-	559,465
Charge for the year	-	14,804	48,217	60,153	87,951	-	211,125
Disposals	-	-	-	(3,039)	(317)	-	(3,356)
Elimination on revaluation*	-	161	5,807	3,793	7,076	-	16,837
Exchange differences	-	-	-	-	-	-	-
At 31 December 2021	-	56,894	216,401	217,099	293,677	-	784,071
Net carrying amount							
At 31 December 2021	58,672	651,982	423,274	52,050	289,442	21,820	1,497,240

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

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2021

	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 2021	58,672	705,624	331,758	196,694	418,475	1,711,223
Additions	-	57,781	36,954	41,602	123,534	259,871
Disposals	-	-	(1,426)	(3,300)	(50)	(4,776)
Elimination on revaluation* (impairment) / reversal of impairment	-	(55,631)	(79,025)	(162,663)	(196,956)	(494,275)
Revaluation adjustment	-	(67,993)	(169)	-	92,877	92,708
At 31 December 2021	58,672	639,781	288,092	179,261	437,880	1,603,686
Accumulated depreciation						
At 1 January 2021	-	54,454	76,813	158,600	190,635	480,502
Charge for the year	-	12,108	22,017	41,365	73,258	148,748
Disposals	-	-	(105)	(449)	(8)	(562)
Elimination on revaluation*	-	(55,631)	(79,025)	(162,663)	(196,956)	(494,275)
Exchange differences	-	-	-	-	-	-
At 31 December 2021	-	10,931	19,700	36,853	66,929	134,413
Net carrying amount						
At 31 December 2021	58,672	628,850	268,392	142,408	370,951	1,469,273

*This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset. If all assets, except for freehold land and work in progress, were measured using the cost model, the carrying amounts would be as follows:

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	558,512	258,639	59,772	108,023	984,946

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2020

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

*This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset. If all assets, except for freehold land and work in progress, were measured using the cost model, the carrying amounts would be as follows:

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	501,456	241,361	26,898	254,197	1,023,912

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2021 (continued)

No borrowing costs were capitalized during the year ended 31 December 2021 (2020: Nil).

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

All the group's assets, except for freehold land and work in progress, were revalued during the year ended 31 December 2021. The revaluation amounts have been incorporated in the financial statements for the year then ended.

The basis of valuation was: -

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

The methods used to determine the fair value were;

- a) The comparable approach, which compares the sales of similar items in the market. The approach was used in the valuation of unspecialised equipment.
- b) The depreciated replacement cost, which derives the value of an asset from the current cost of reproduction/replacement less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The approach was used in the valuation of specialized machinery, buildings and structures.

The valuation was undertaken by an independent professional valuer, Sterling Valuers Limited. The revaluation surplus or deficit was recognised as disclosed in note 2(f).

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

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

Ownership of the land has however transferred to the entity under the original lease agreement, but factoring in the above Land registration Act, ownership cannot legally transfer. The entity thus no longer has any lease payments remaining and the only outflows relate to land rates paid to government for the land.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

3. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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



CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Cost				
At 1 January	222,566	195,030	204,444	178,724
Additions	34,449	26,320	32,543	25,720
Exchange difference	881	1,216	-	-
At 31 December	257,896	222,566	236,987	204,444
Amortisation				
At 1 January	162,725	144,611	148,286	133,377
Charge for the year	20,799	17,211	19,254	14,909
Exchange difference	805	903	-	-
At 31 December	184,329	162,725	167,540	148,286
Net carrying amount				
At 31 December	73,567	59,841	69,447	56,158

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

There were no borrowing costs capitalized during the year ended 31 December 2021 (2020: Nil).

No intangible assets have been pledged as security for the year ended 31 December 2021 (2020: Nil).

5. RIGHT OF USE ASSETS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Cost				
At 1 January	435,464	338,584	263,497	182,548
Additions	235,116	112,562	115,822	105,064
Disposal	(59,315)	(26,207)	(59,315)	(24,115)
Exchange difference	4,800	10,525	-	-
At 31 December	616,065	435,464	320,004	263,497
Amortisation				
At 1 January	222,102	104,355	109,743	56,171
Charge for the year	155,895	118,650	92,672	59,723
Disposals	(49,803)	(6,151)	(49,802)	(6,151)
Exchange difference	7,485	5,248	-	-
At 31 December	335,679	222,102	152,613	109,743
Net carrying amount				
At 31 December	280,386	213,362	167,391	153,754
Amounts recognized in profit and loss:				
Amortisation expense on right-of-use assets (note 20 & 23)	155,895	118,650	92,672	59,723
Interest expense (note 24)	31,582	24,969	24,213	18,100

The identified right of use assets that the group has leased are depots, showrooms, godowns (storage warehouses) and residential apartments.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. RIGHT OF USE ASSETS (continued)

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

There are no low value assets. Non lease components are treated separately using the applicable Standards.

There are no restrictions or covenants imposed by lessors and the company did not enter into any sale and leaseback transactions during the year (2020: Nil).

The total cash outflow for leases amount to KShs 178 million (2020: KShs 143 million inclusive of service charge which has been expensed in current year) for the group, company KShs 109 million in 2021 (2020: KShs 70.9 million inclusive of service charge which has been expensed in current year).

6. INVESTMENT IN SUBSIDIARIES

Information about subsidiaries

The consolidated financial statements of the group include investment in subsidiaries as disclosed below.

These investments are unquoted and held at cost less impairment loss:

Details of investment	Country of incorporation	Activity	Holding %	2021 KShs'000	2020 KShs'000
Crown Paints Allied Industries Limited (44,800 ordinary shares of KShs 1,000 each, share premium – 34,800 shares of KShs 1,500 each).	Kenya	Manufacture of adhesives	100	97,000	97,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) 1,039,203 ordinary shares of KShs 288 each, share premium- 1,034,203 shares of KShs 431 each.	Uganda	Selling of auto paints and decorative products	100	745,209	745,209
Crown Paints Tanzania Limited 75,413 ordinary shares of KShs 4,525 each, share premium 65,413 shares of KShs 6,603 each.	Tanzania	Selling of auto paints and decorative products	100	773,162	773,162
Crown Paints Rwanda Limited 10,521 ordinary shares of KShs 1,148 each, share premium 9,521 shares of KShs 1,6997 each.	Rwanda	Selling of auto paints and decorative products	100	173,914	173,914
				1,789,285	1,789,285
Provision for impairment in subsidiaries				(775,008)	(770,008)
				1,014,277	1,019,277

During the year ended 31 December 2021, an additional provision for impairment in subsidiaries has been made of KShs 5,000,000 (2020: KShs 116,927,000).

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. INVESTMENT IN SUBSIDIARIES (continued)

	2021 KShs'000	2020 KShs'000
Impairment loss		
At 1 January	770,008	653,081
Charge for the year	5,000	116,927
At 31 December	775,008	770,008

	Carrying amount KShs'000	Recoverable amount KShs'000	Impairment loss KShs'000
Year ended 31 December 2021			
Impairment loss			
Regal Paints Uganda Limited	367,662	425,000	-
Crown Paints Tanzania Limited	385,637	495,000	-
Crown Paints Rwanda Limited	168,978	163,978	5,000
	922,277	1,083,978	5,000
Year ended 31 December 2020			
Impairment loss			
Subsidiary			
Regal Paints Uganda Limited	467,044	367,662	99,382
Crown Paints Tanzania Limited	398,246	385,637	12,609
Crown Paints Rwanda Limited	173,914	168,978	4,936
	1,039,204	922,277	116,927
Inputs used:	Regal Paints Uganda Limited	Crown Paints Tanzania Limited	Crown Paints Rwanda Limited
Discount rate - weighted average cost of capital	14.95%	16.02%	14.09%
Control premium	20%	20%	20%
Terminal growth rate in perpetuity	8%	5%	5%

Regal Paints Uganda Limited, Crown Paints Rwanda Limited and Crown Paints Tanzania Limited have a history of losses. Further, the subsidiaries rely on the parent company for provision of working capital and their ability to continue as a going concern depends on the continued support they receive from the parent company.

During the year ended 31 December 2021, an impairment assessment was carried out by management and as tabulated above, the recoverable amount of two subsidiaries was higher than the carrying amount whereas for Crown Paints Rwanda Limited the recoverable amount was lower than the carrying amount. The recoverable amount of the CGU's (cash generating units) for each entity is the value in use which was estimated using the discounted cash flows.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. INVESTMENT IN SUBSIDIARIES (continued)

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

An impairment loss was recognised in the statement of profit or loss for the year ended 31 December 2021.

The assumptions used includes the following;

Regal Paints Uganda Limited

- Management anticipates revenue to increase at an average of 16.9% for the period 2022-2026. EBITDA margin is expected to increase from 4.5% in 2021 to 12.6% in 2022 and further to 15.6% in 2025 attributed by revenue growth. Cost of sales is forecast to increase by 16.4% between 2022 - 2025. Gross margin improved from 26.7% in 2021 to 28.8% in 2022 and is forecast to increase at average of 28.8%.
- Operating expenses as a % of revenue has remained constant in 2021 at 42.7% from 42.9% in 2020. The trend is expected to continue as operating expenses as % of revenue is expected to average of 26.7% lower than current results in the forecast period.
- The expected volume growth will be 17% in 2022, 12% in 2023, 12% in 2024 and thereafter 10% up to 2026 due to;
- Inflation rates will not exceed 3%. i.e the raw materials cost increase will not exceed 3%
- Expected annual price increases will be at 3%.
- No economic nor political factors will affect the projected volumes and sales growth below projections. Projected Sadolin sales volume will not in any way go below stated projections.
- Overheads will be absorbed at UGShs 300 per litre.
- Annual salaries increase will not exceed 5%.
- Budgets will be adhered to 100%.
- The tolling fee from Sadolin brand sales will be maintained at 9% of raw materials and overheads.
- The Company will maintain 60-75 days of raw materials.
- Debtors net outstanding days will gradually be reduced to 65-70 days.
- On average the credit days will be 2.2 months considering shipping period and mix of local creditors.
- COVID 19 related business restrictions are not expected going forward.

Crown Paints Tanzania Limited

- Management anticipates a modest growth of 34.9% in 2022, 26% in 2023 and thereafter 23% in 2024 and 2025. In the macro-economics the growth in GDP is anticipated at 4.3%.
- EBITDA margin is expected to decline from 11.4% in 2021 to 1.6% in 2022, attributed to a decline in other income. EBITDA margin is expected to increase in 2022 driven by revenues. The Company's strategy to increase EBITDA is based on four main points:
- Reclaiming regions/territories that were Crown's strongholds through increased marketing and deploying area salesmen.
- Enhancing strong internal controls after centralizing operations in Arusha.
- Change in business model, after restructuring production to be more customer centric in production. Focusing on customer sales, delivery and collections to enhance cashflow hence increase in production without cash hindrance. Management has now enhanced more direct monitoring from head office.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. INVESTMENT IN SUBSIDIARIES (continued)

Crown Paints Tanzania Limited (continued)

- Company is now sourcing most raw materials from source at more competitive prices hence enjoying lower prices and increasing earnings.
- Cost of sales is forecast to increase by 25.6% due to increase in raw materials in the forecast period between 2022 and 2025. Other costs of sales include royalty/levy which is projected to be incurred in the forecast period.
- Gross margin improved from 21.0% in 2020 to 22.0% in 2021 and is forecast to increase to average of 28.5% between 2022-2025.
- Operating expenses as a % of revenue improved in 2021 to 29.0% from 32.4% in 2020. This trend is expected to continue as operating expenses as % of revenue is expected to average of 14.3% in the forecast period which is lower than current result.
- An expected growth of 14.1% in the construction sector.
- Better internal controls, better production quality, cost saving in multiple fronts - Staff, factory overheads and stocking requirement and better planning and supply chain activity.
- Use of one distributor Sai in Dar es Salaam who has been handling the sales.
- Team Kubwa was implemented in the last quarter of the year 2021. This will boost coming years sales.
- Raw materials cost will remain same or proportionate increase with an increase in sales price.
- Exchange rates will remain stable, and any change will not have a material impact on raw material cost.
- Annual salaries increase will not exceed 8%.
- Price increase has been estimated to be 6%.

Crown Paints Rwanda Limited

- Management anticipates a growth of sales volume at an average of 15.0% in 2022-2025. Sales revenue is expected to grow at an average of 16.2% 2022-2025 which is foreseen to be growth rate across all product lines. Gross cost of sales is forecast to increase by 14.7% between 2022-2025. The gross margin is forecast to increase to average of 28.9% 2022-2025. Operating expenses as a % of revenue increased in 2021 to 24.5% from 26.6% in 2020. However, operating expenses are expected to grow at average of 4.8% 2022-2025 lower than revenue, hence improvement in the operating margin.
- Factory staff costs are considered to have a constant increase of 5% over the years. Factory depreciation remains constant in the fixed asset register as long as there are no disposals and acquisitions. Other costs of production and overheads are considered to have 1% increase across the years. Transport cost to depots given a consideration of 5% increase each year.
- Depot staff costs are considered to have a constant increase of 7% over the years.
- Audit fee was given a consideration of 2% across the years. Legal fee was considered to increase with 5% each year. Insurance is assumed to have a 10% increase each year. Other administration costs are considered to increase with 1% across the years.
- Transport cost was calculated using the budgeted volume and taking into consideration the cost per litre remained constant.
- Travel and entertainment, advertising and promotion and depot costs (security and rent) were given the assumption of 5% increase across the years. Other expenses were given an assumption of 1% while bank charges were considered to increase by 0.5% across the years.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

7. INVENTORIES

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Finished goods and packaging materials	1,019,219	740,243	796,346	529,491
Raw materials	1,639,191	665,962	1,327,551	440,235
Goods in transit	695,674	530,819	695,622	530,904
Work In progress	59,427	44,944	29,008	18,103
	3,413,511	1,981,968	2,848,527	1,518,733
Inventories write-down to NRV	(90,673)	(73,571)	(80,876)	(65,285)
	3,322,838	1,908,397	2,767,651	1,453,448

The amount of inventories write-down reversed during the year was KShs. 22,555,000 (2020: KShs 24,707,000) for the group and KShs. 22,460,000 (2020: KShs 24,448,000) for the company, for inventories carried at net realisable value. This is recognised in other income, Note 21. Reversal of inventory write down occurs when inventory assessed as slow moving is used as input in production or is finally sold. Provision is normally based on the last movement day of the stock item which varies with subsequent sales or use.

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
At the beginning of the year	73,571	64,725	65,285	61,513
Provision for the year (note 23)	42,988	34,518	38,051	28,220
Used in the year – write off	(3,631)	(965)	-	-
Reversals of write-down (note 21)	(22,555)	(24,707)	(22,460)	(24,448)
Exchange difference	300	-	-	-
	90,673	73,571	80,876	65,285

8. TRADE AND OTHER RECEIVABLES

Trade receivables	1,394,302	1,207,639	1,165,698	1,008,992
Other receivables	103,113	85,377	42,865	18,360
Prepayments	139,816	77,179	107,771	52,018
	1,637,231	1,370,195	1,316,334	1,079,370

The average credit period on sales of finished goods is 30 days. Other receivables consist of staff loans, staff floats and deposits with suppliers. Staff loans are issued to staff to purchase motor vehicles at an interest rate of 8%, for a period not exceeding 36 months. The staff loans are secured against the logbooks. Staff floats and deposits with suppliers are made in the ordinary course of business and are non-interest bearing. They are for a period not exceeding two months.

Prepayments were made in the ordinary course of business with regard to insurance premiums and computer software licences.

As at 31 December 2021, the group's trade receivables with initial value of KShs 502,328,000 (2020: KShs 639,085,000) were fully provided for. The company's trade receivables with initial value of KShs 325,156,000 (2020: KShs 404,656,000) were fully provided for.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

8. TRADE AND OTHER RECEIVABLES (continued)

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
At the beginning of the year	639,085	886,483	404,656	593,922
Charge for the year	96,763	59,634	94,435	56,665
Write off	-	(39,175)	-	-
Recoveries during the year	(229,620)	(267,857)	(173,935)	(245,931)
Exchange difference	(3,900)	-	-	-
	502,328	639,085	325,156	404,656
Net movement				
Charge for the year	96,763	59,634	94,435	56,665
Recoveries during the year	(229,620)	(267,857)	(173,935)	(245,931)
	(132,857)	(208,223)	(79,500)	(189,266)
Ageing analysis of trade receivables:				
Less than 60 days	1,465,915	1,106,928	1,180,224	1,019,020
61 days to 90 days	52,502	102,326	17,032	55,441
Over 90 days	378,213	637,470	293,598	339,187
	1,896,630	1,846,724	1,490,854	1,413,648
Allowance for ECLs / impairment	(502,328)	(639,085)	(325,156)	(404,656)
Net	1,394,302	1,207,639	1,165,698	1,008,992

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

Ageing analysis for other receivables:

	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Less than 60 days	79,475	70,037	19,302	3,095
61 days to 90 days	868	325	868	325
Over 90 days	22,770	15,015	22,695	14,940
	103,113	85,377	42,865	18,360
Impaired	-	-	-	-
Net	103,113	85,377	42,865	18,360

The group's other receivables is mainly staff loans. Given the nature of the receivables and the fact that they are recovered through payroll then no ECL has been recognised.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

i) Amount due from

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Crown Paints and Building Products Limited	519,786	531,327	519,786	531,327
Regal Paints Uganda Limited	-	-	120,821	101,572
Crown Paints Allied Industries Limited	-	-	8,054	11,185
Crown Paints Rwanda Limited	-	-	3,240	3,850
Crown Paints Tanzania Limited	-	-	436,578	392,416
	519,786	531,327	1,088,479	1,040,350
Provision for expected credit losses	(519,555)	(427,191)	(1,047,540)	(864,649)
	231	104,136	40,939	175,701

As at 31 December 2021, the group's related party receivables with initial value of KShs 519,555,000 (2020: KShs 427,191,000) were fully provided for. The company's related party receivables with initial value of KShs 1,047,540,000 (2020: KShs 864,649,000) were fully provided for.

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
At the beginning of the year	427,191	298,686	864,649	710,377
Provision for expected credit losses	103,642	131,631	198,849	231,862
Recoveries during the year	(11,278)	(3,126)	(15,958)	(77,590)
	519,555	427,191	1,047,540	864,649
Expected credit losses net movement:				
Provision for expected credit losses	103,642	131,631	198,849	231,862
Recoveries during the year	(11,278)	(3,126)	(15,958)	(77,590)
	92,364	128,505	182,891	154,272
Aging analysis				
Less than 60 days	61,673	109,686	171,396	161,813
61 days to 90 days	47,167	6,046	71,098	57,085
Over 90 days	410,946	415,595	845,985	821,452
	519,786	531,327	1,088,479	1,040,350
Impaired	(519,555)	(427,191)	(1,047,540)	(864,649)
Neither past due nor impaired	231	104,136	40,939	175,701

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(ii) Payables to related companies:	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Crown Paints Allied Industries Limited	-	-	24,532	17,387
Daxian Limited	22,892	9,815	22,892	9,815
Regal Paints Uganda Limited	-	-	9,773	284
Crown Paints and Building Products Limited	44,434	34,204	32,430	16,393
Crown Paints Tanzania Limited	-	-	-	6,022
	67,326	44,019	89,627	49,901

The following transactions were carried out with related parties:

(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	45,443	30,294
Crown Paints Rwanda Limited	-	-	57,037	74,412
Regal Paints Uganda Limited	-	-	86,850	122,723
Crown Paints Tanzania Limited	-	-	188,331	81,112
Crown Paints and Building Products Limited	804	-	804	-
Purchase of goods:				
Crown Paints Allied Industries Limited	-	-	104,649	73,198
Regal Paints Uganda Limited	-	-	17,185	17,571
Crown Paints Rwanda Limited	-	-	2,998	16,009
Crown Paints and Building Products Limited	159,189	-	132,940	-
Services rendered:				
Crown Paints and Building Products Limited	13,756	5,700	12,153	5,700
Daxian Limited	123,647	107,991	123,647	107,991

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

(iv) Payments made on behalf of related parties				
Crown Paints and Building Products Limited	519,786	531,327	519,786	531,327
Movement in the year:				
At beginning of the year	531,327	383,026	531,327	383,026
Payments made on behalf of CPBPL	410,096	363,115	410,096	363,115
Receipts from CPBPL	(421,637)	(214,814)	(421,637)	(214,814)
Gross amount	519,786	531,327	519,786	531,327
Provision for expected credit losses	(519,555)	(427,191)	(519,555)	(427,191)
As at 31 December- net amount	231	104,136	231	104,136

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(v) Payments made / (receipts from) on behalf of subsidiaries

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Crown Paints Allied Industries Limited	-	-	(1,762)	27
Regal Paints Uganda Limited	-	-	33,073	93
Crown Paints Rwanda Limited	-	-	-	(4,601)
Crown Paints Tanzania Limited	-	-	(62,361)	30,283

(vi) Key management personnel compensation

	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Short term employee benefits	225,217	243,917	225,217	243,917
Defined contribution plan	4,763	4,161	4,763	4,161
	229,980	248,078	229,980	248,078

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

(vii) Directors' remuneration

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Fees for services as directors	14,245	9,667	14,245	9,667
Other emoluments (included in key management personnel compensation above)	154,644	146,762	154,644	146,762
	168,889	156,429	168,889	156,429

(viii) Loans to related parties

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Crown Paints and Building Products Limited	99,680	86,485	99,680	86,485
Movement in loans to CPBL:				
At beginning of the year	86,485	65,025	86,485	65,025
Loans issued during the year	221,287	213,358	221,287	213,358
Repayments made during the year	(208,092)	(191,898)	(208,092)	(191,898)
Gross amount	99,680	86,485	99,680	86,485
Provision for expected credit losses	(99,680)	-	(99,680)	-
As at 31 December- net amount	-	86,485	-	86,485
(ix) Short term notes due to related parties				
Directors	366,570	361,459	366,570	361,459

The principal amount of the short-term notes is normally rolled forward on maturity, but interest is most of the times paid out. The total amount of interest paid out during the year amounted to KShs 18,368,000 (2020: KShs 42,527,000).

Terms and conditions of transactions with related parties.

The short-term notes due to related parties are at an interest rate of 10% for a period not exceeding 1 year. The other amounts due from and due to related parties are non-interest bearing and unsecured. There is no fixed repayment schedule for the amounts due.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

10. TAX	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(104,374)	(7,496)	(75,131)	20,220
Amount recovered	-	8,567	-	-
Charge for the year	357,617	246,769	353,210	244,320
Paid during the year	(278,674)	(352,214)	(268,609)	(339,671)
Exchange difference	(501)	-	-	-
Current tax (recoverable) / payable	(24,932)	(104,374)	9,470	(75,131)
The amount has been presented in the statement of financial position as follows;				
Current tax payable	9,470	-	9,470	-
Current tax recoverable	(34,402)	(104,374)	-	(75,131)
Net amount	(24,932)	(104,374)	9,470	(75,131)
PROFIT OR LOSS				
Current tax at 30% (2020: 25%) on the taxable profit for the year	357,617	246,769	353,210	244,320
Deferred tax charge / (credit) (note 14)	35,553	16,612	35,553	16,612
	393,170	263,381	388,763	260,932
Reconciliation of tax expense to tax based on accounting profit				
Accounting profit before tax	1,124,400	862,886	1,055,440	680,169
Tax at applicable rate of 30% (2020: 25%)	337,320	215,721	316,632	170,042
Tax effect on items not eligible for tax purposes	44,258	69,535	72,131	88,119
Change in tax rate	-	4,052	-	2,771
Minimum tax liability - Tanzania	3,622	2,449	-	-
Non-taxable income	-	(1,886)	-	-
Deferred tax not recognised- subsidiaries (note 14)	7,970	(26,490)	-	-
	393,170	263,381	388,763	260,932

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

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

The rates introduced in April 2020 through the stimulus package were reversed through changes of tax rates introduced through the Tax Laws (Amendment) No. 2 Act of 2020 which was published on 24 December 2020 with respect to employment income, corporation tax, and Legal Notice No. 206 of 2020 on Value Added Tax. The corporation tax rate reverted to 30%, VAT to 16% effective 1 January 2021.

The company had used the 25% in the computation of the income tax for the year ended 31 December 2020 and 30% in computing the deferred tax given that it was a future tax then and the rates had reverted to 30%. The tax rates applicable for subsidiaries in Uganda, Rwanda and Tanzania have the income tax rates at 30% for both 2020 and 2021 financial year ends.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

10. TAX (continued)

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Tax effect on items not eligible for tax purposes can be summarised as follows:				
Depreciation	3,725	494	3,644	494
Amortisation intangible assets	172	317	-	-
Amortisation on leasehold land	80	66	80	66
Staff benevolent costs	257	88	234	85
Consultancy fee	-	2,415	-	2,415
Stamp duty	-	1,157	-	1,157
Bad debts written off	25,450	11,954	1,807	2,449
Interest expense	-	4,535	-	-
Donations	246	74	149	34
Sponsorship	1,930	667	1,930	657
Fines and penalties	2,130	7,800	1,545	7,637
School fees	1,517	1,454	1,213	1,237
Inventory write off	15,117	465	-	-
Sales and promotion	-	656	-	-
Corporate social responsibility	230	245	230	245
Pension scheme administration costs	1,210	808	1,210	808
Company staff program	2,155	1,309	645	130
Excess pension contribution	3,805	2,717	3,805	2,717
Provision for amount owing from related parties	-	32,126	54,867	38,568
Valuation fees	-	188	-	188
Overheads - other	(14,036)	-	(998)	-
Club membership subscriptions	270	-	270	-
Impairment loss on investment in subsidiaries	-	-	1,500	29,232
	44,258	69,535	72,131	88,119

11. SHARE CAPITAL

GROUP & COMPANY

	2021 KShs'000	2020 KShs'000
Authorised:		
163,707,000 (2020: 71,181,000) ordinary shares of KShs. 5 each	818,535	355,905
Issued and fully paid:		
At 1 January - 71,181,000 ordinary shares of KShs. 5 each	355,905	355,905
Issued during the rights issue in June 2021 - 71,181,000 ordinary shares of KShs. 5 each	355,905	-
At 31 December	711,810	355,905

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

12. RESERVES

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Share premium	392,097	80,174	392,097	80,174
Revaluation reserve	117,471	43,493	83,420	84,219
Foreign currency translation reserve	102,110	89,506	-	-
Retained earnings	2,106,701	1,340,432	2,530,766	1,836,035
	2,718,379	1,553,605	3,006,283	2,000,428

The share premium arose from the issue of 8,630,000 ordinary shares to the public in 1992 and from a rights issue of 71,181,000 new ordinary shares at a price of KShs 10 per share in June 2021. Any excess of the cash received from shareholders over the ordinary share nominal amount is recorded in the share premium.

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

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

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

13. DIVIDENDS

	GROUP & COMPANY	
	2021 KShs'000	2020 KShs'000
Dividend paid		
Final dividend for 2020 KShs. Nil per share (2019: KShs. Nil per share)	-	-
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares KShs: 4.00 (2020: Nil) per share	569,448	-

- (i) Dividend per share is arrived at by dividing the total dividends by the outstanding 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.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

14. DEFERRED TAX ASSET- GROUP

	Balance at 1 January KShs'000	Profit or loss KShs'000	Utilised tax loss during the year KShs'000	Other comprehensive income KShs'000	Balance at 31 December KShs'000
At 1 January 2020					
Year ended 31 December 2021					
Accelerated capital allowances	126,785	(20,627)	-	-	106,158
Unrealised exchange loss	(5,138)	(1,469)	-	-	(6,607)
Unrealised exchange gain	8,466	(6,084)	-	-	2,382
Revaluation reserve	31,801	12,846	-	36,211	80,856
Allowance for doubtful debts – third parties	(191,725)	40,272	-	-	(151,453)
Provisions for staff leave	(4,492)	(2,424)	-	-	(6,916)
Provisions for contingent liability	(2,375)	(2,848)	-	-	(5,223)
Provision for obsolete inventories	(22,198)	(5,004)	-	-	(27,202)
Provision for penalties	(23,181)	(463)	-	-	(23,644)
Lease liability	(154)	(1,109)	-	-	(1,263)
Provision for rebates	(749)	749	-	-	-
Tax losses	(323,721)	(4,752)	21,273	-	(307,200)
	(406,681)	9,087	21,273	36,211	(340,112)
Deferred tax not recognised- subsidiaries	367,503	26,467	(21,273)	(24,531)	348,168
	(39,178)	35,554	-	11,680	8,056
Year ended 31 December 2020					
Accelerated capital allowances	143,680	(16,895)	-	-	126,785
Unrealised exchange loss	(5,767)	629	-	-	(5,138)
Unrealised exchange gain	6,014	2,452	-	-	8,466
Revaluation reserve	37,230	(5,429)	-	-	31,801
Allowance for doubtful debts – third parties	(271,915)	80,190	-	-	(191,725)
Provisions for staff leave	(5,215)	723	-	-	(4,492)
Provisions for contingent liability	(4,705)	2,330	-	-	(2,375)
Provision for obsolete inventories	(19,590)	(2,608)	-	-	(22,198)
Provision for penalties	-	(23,181)	-	-	(23,181)
Lease liability	(69)	(85)	-	-	(154)
Provision for rebates	(62)	(687)	-	-	(749)
Tax losses	(333,816)	5,663	4,432	-	(323,721)
	(454,215)	43,102	4,432	-	(406,681)
Deferred tax not recognised- subsidiaries	398,425	(26,490)	(4,432)	-	367,503
	(55,790)	16,612	-	-	(39,178)

Note: In the 2020 published financial statements, the deferred tax reconciliation for the consolidated results were incorrectly omitted, however it has now been included in 2020 and 2021.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

14. DEFERRED TAX ASSET- COMPANY

Movements in deferred tax during the year were as follows:	Balance at 1 January KShs'000	Profit or loss KShs'000	Other comprehensive income KShs'000	Balance at 31 December KShs'000
Year ended 31 December 2021				
Accelerated capital allowances	104,718	(763)	-	103,955
Unrealised exchange loss	(4,773)	2,950	-	(1,823)
Unrealised exchange gain	-	-	-	-
Revaluation reserve	31,800	19,254	11,680	62,734
Allowance for doubtful debts – third parties	(121,395)	23,849	-	(97,546)
Provisions for staff leave	(4,388)	(2,210)	-	(6,598)
Provisions for contingent liability	(2,375)	(2,849)	-	(5,224)
Provision for obsolete inventories	(19,584)	(4,677)	-	(24,261)
Provision for penalties	(23,181)	-	-	(23,181)
	(39,178)	35,554	11,680	8,056
Year ended 31 December 2020				
Accelerated capital allowances	112,012	(7,294)	-	104,718
Unrealised exchange loss	-	(4,773)	-	(4,773)
Unrealised exchange gain	1,496	(1,496)	-	-
Revaluation reserve	37,229	(5,429)	-	31,800
Allowance for doubtful debts – third parties	(178,175)	56,780	-	(121,395)
Provisions for staff leave	(5,194)	806	-	(4,388)
Provisions for contingent liability	(4,705)	2,330	-	(2,375)
Provision for obsolete inventories	(18,453)	(1,131)	-	(19,584)
Provision for penalties	-	(23,181)	-	(23,181)
	(55,790)	16,612	-	(39,178)

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting to KShs 307,200,414 (2020: KShs 323,720,756) because it is not expected that the companies will have taxable profits in the near future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to KShs 1,024,001,379 (2020: KShs 1,079,069,187) and can be carried forward for a maximum period of 5 years in accordance with Rwandan tax laws and indefinitely for Kenya, Tanzania and Uganda. The other temporary differences relating to the subsidiaries for which no deferred tax has been recognized amount to KShs 125,277,845 (2020: KShs 131,152,125).

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

14. DEFERRED TAX ASSET (continued)

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

- a) 2017 tax loss amounting to KShs. 18,056,539 expires on 31 December 2022
- b) 2018 tax loss amounting to KShs. 23,289,326 expires on 31 December 2023

15. BANK OVERDRAFT

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Bank overdraft	15,053	30,291	8,297	30,291

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

The weighted average interest rate on the overdraft at year-end was 12% (2020: 13%), while letters of guarantee had a weighted average interest rate of 9.5% (2020: 9.69%). The bank overdrafts are reviewed annually and are payable on demand.

16. BANK LOANS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Long term loans:				
KCB Loan - Kenya	232,250	342,067	232,250	342,067
Bank of Africa Loan - Uganda	9,227	-	-	-
I&M Loan - Uganda	60,072	75,326	-	-
I&M Loan - Tanzania	28,188	34,725	-	-
NIC Bank Tanzania Limited	-	305	-	-
Alliance Finance Corporation Limited	-	2,622	-	-
	329,737	455,045	232,250	342,067
Short term borrowings:				
NCBA PIF facility	53,968	141,247	53,968	141,247
KCB PIF facility	134,116	211,030	110,552	211,030
	188,084	352,277	164,520	352,277
Total bank loans	517,821	807,322	396,770	694,344
Due within 1 year	302,209	430,234	246,724	411,113
Due after 1 year	215,612	377,088	150,046	283,231
Movements during the year:				
At 1 January	807,322	1,061,782	694,344	797,890
Additional loan received	1,192,951	1,078,706	1,125,075	1,078,706
Accrued interest	85,425	107,893	76,035	84,707
Interest payments	(85,425)	(99,825)	(76,035)	(84,707)
Loan repayments	(1,481,331)	(1,371,587)	(1,422,918)	(1,206,182)
Foreign exchange difference	(1,121)	30,353	269	23,930
At 31 December	517,821	807,322	396,770	694,344

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

16. BANK LOANS (continued)

The weighted average interest rate on the loans at year-end was 12% (2020: 13%). The amount due in 1 year also includes the current portion of the long-term loans due within 12 months amounting to KShs 118 million (2020: KShs 78 million) for the group, company KShs 83 million (2020: 59 million). The long term loans relate to financing from Kenya Commercial Bank Limited for the construction of warehouses and offices, landed costs of vehicles, equipment, fixtures and fittings for a new factory erected on property L.R. No. Kisumu/Ojola/4790 and asset based finance loan for the purchase of new machinery and motor vehicles. The facilities shall be repaid in 77 months and 48 months consecutive monthly instalments inclusive of interest and other charges.

The long term loan from Bank of Africa Uganda is an asset based financing for the purchase of machinery. The interest on the term loan is at the Bank's base rate of 6.82% plus a margin of 1.18% per annum subject to a minimum rate of 8% per annum and the facility shall be repaid in 24 months consecutive monthly instalments inclusive of interest and other charges.

The loan from I&M Bank Limited (Uganda) is a letter of credit cum term loan for the purchase of machinery required in the ordinary course of business. The interest on the term loan is at the Bank's USD prime lending rate minus 1% effective 9% per annum and the facility shall be repaid in 48 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 12 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of USD 3,099,000 over all the assets of Regal Paints Uganda Limited and corporate guarantee and indemnity of Crown Paints Kenya Plc for USD 3,099,000.

The loan from I&M Bank Tanzania Limited is an import and asset based financing for the purchase of machinery drawn down under the USD 2,051,830 facility. The interest on the term loan is at the Bank's USD prime lending rate minus 1% effective 9% per annum and the facility shall be repaid in 84 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 24 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of USD 2,564,787 over all the assets of Crown Paints Tanzania Limited, corporate guarantee of Crown Paints Kenya Plc for USD 2,052,000 and personal guarantee of Mhamud Charania for USD 2,052,000.

17. SHORT TERM NOTES

GROUP & COMPANY

	2021 KShs'000	2020 KShs'000
Amounts falling due within one year	527,574	510,881
Movement in the year:		
At 1 January	510,881	1,033,212
Additional loan received	15,819	55,063
Accrued interest	52,805	101,799
Interest payments	(18,368)	(42,527)
Loan repayments	(33,563)	(636,666)
At 31 December	527,574	510,881

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

18. TRADE AND OTHER PAYABLES

GROUP

COMPANY

	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Amounts falling due within one year				
Trade payables	2,383,410	1,692,357	2,046,055	1,420,665
Other payables	74,751	106,581	62,880	65,722
Accruals	463,671	314,914	322,059	238,932
	2,921,832	2,113,852	2,430,994	1,725,319

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

18. TRADE AND OTHER PAYABLES (continued)

Terms and conditions of the above financial liabilities:

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

19. REVENUE FROM CONTRACTS WITH CUSTOMERS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Following revenue arose from sale of goods:				
Decorative paints	8,629,881	7,387,277	8,065,166	6,968,444
Industrial paints	1,206,992	1,138,919	1,125,249	1,041,524
Automotive paints	551,384	385,236	173,256	150,361
Adhesives	344,923	280,272	292,545	240,866
	10,733,180	9,191,704	9,656,216	8,401,195

Revenue from the sale of the paint is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the paint at the customer's location. Refer to note 33 for revenue information based on locations per customers.

20. COST OF SALES

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Raw materials	5,912,351	4,861,157	5,313,564	4,477,266
Salaries and wages	260,134	216,823	213,046	180,271
Depreciation on plant and machinery	59,929	62,948	34,118	39,465
Machinery repairs and maintenance	60,032	42,082	55,999	38,481
Fuel, water and electricity	31,972	26,934	22,601	18,150
Safety and environmental costs	45,014	43,756	43,762	42,793
Amortisation on right of use asset	7,935	6,453	-	-
Transport costs	1,492	1,424	1,441	1,321
Factory rent	1,378	2,942	-	-
Others	10,344	7,955	3,432	2,438
	6,390,581	5,272,474	5,687,963	4,800,185

21. OTHER INCOME

Gain on disposal of property and equipment	210	1,292	-	-
Gain on lease termination	-	6,543	-	6,543
Interest income	8,433	11,122	581	876
Miscellaneous income	109,429	134,448	49,008	64,332
Reversal of impairment on property, plant and equipment (Note 3)	55,772	-	92,708	-
Operating lease revenue	40,152	28,161	40,152	27,160
Decrease in provision for leave	18	2,687	-	2,687
Reversal of inventory write down (note 7)	22,555	24,707	22,460	24,448
Foreign exchange gain	88,380	57,469	25,250	10,009
Decrease in provision for contingent liability (note 29)	-	7,765	-	7,765
Rent concession (note 30)	-	2,293	-	1,858
Surcharge sales	1,086	1,030	1,086	1,029
Tolling fees – revenue from contracts with customers	49,854	39,734	-	-
	375,889	317,251	231,245	146,707

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

21. OTHER INCOME (continued)

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

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Staff costs (Note 25)	1,155,653	1,059,050	981,081	905,116
Depreciation on property and equipment	139,514	148,405	114,630	119,864
Auditors' remuneration	12,866	13,406	8,055	7,599
Directors' emoluments:				
As directors	14,245	7,991	14,245	7,991
As executives	154,644	143,736	154,644	143,736
Legal and professional fees	38,912	56,363	30,932	49,279
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	20,799	17,211	19,254	14,909
Insurance	50,662	52,332	41,284	42,381
Loss on disposal of property and equipment	708	137	706	137
Loss on lease termination	5,679	-	5,679	-
Foreign exchange loss	88,822	127,827	51,113	107,813
Office expenses	59,765	54,422	53,095	47,395
Consultancy fees	54,463	239,941	38,034	227,802
Computer costs	64,635	65,952	58,265	61,544
Travel	21,464	45,025	14,247	38,543
Maintenance, subscriptions and donations	15,497	21,682	12,151	19,743
Bank charges	42,499	27,232	37,098	23,304
Others	68,924	75,231	23,093	66,836
	2,020,016	2,156,208	1,657,871	1,884,257

23. SELLING AND DISTRIBUTION EXPENSES

Transport	279,690	263,570	225,178	217,892
Advertising and promotion	758,746	474,420	702,943	439,271
Inventory write-downs (note 7)	42,988	34,518	38,051	28,220
Bad debts written off during the year	50,755	21,825	6,048	9,801
Depot expenses	148,538	135,900	133,614	123,398
Amortisation on right of use asset	147,960	111,932	92,672	59,723
Others	12,603	12,974	12,488	11,406
	1,441,280	1,055,139	1,210,994	889,446

24. FINANCE COSTS

Interest on loans and overdraft	98,897	115,198	89,784	92,013
Interest on lease liability	31,582	24,969	24,213	18,100
Interest on short term notes	52,806	101,799	52,805	101,799
	183,285	241,966	166,802	211,912

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

25. STAFF COSTS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Salaries and wages	937,446	858,739	796,814	736,528
Defined contribution plan	16,078	13,077	4,034	3,232
Leave provision	7,367	-	7,367	-
Medical benefits	18,706	14,965	15,114	12,855
Insurance	99,703	99,300	90,397	88,901
Staff general costs	63,859	59,960	58,184	51,966
Training and development	12,494	13,009	9,171	11,634
Staff costs (Note 22)	1,155,653	1,059,050	981,081	905,116
Salaries and wages (Note 20)	2,020,016	2,156,208	1,657,871	1,884,257
Total staff costs	1,415,787	1,275,873	1,194,127	1,085,387

26. PROFIT BEFORE TAX

The profit before tax is stated after charging:-

Depreciation of property, plant and equipment (Note 3)	199,443	211,125	148,748	159,329
Amortisation of right of use (Note 5)	155,895	118,650	92,672	59,723
Amortisation of intangible assets (Note 4)	20,799	17,211	19,254	14,909
Directors' emoluments:				
As directors (Note 22)	14,245	9,667	14,245	9,667
As executives (Note 22)	154,644	142,060	154,644	142,060
Auditors' remuneration (Note 22)	12,866	13,406	8,055	7,599
Loss on disposal of property, plant and equipment (Note 22)	708	137	706	137
Finance costs (Note 24)	183,285	241,966	166,802	211,912
Foreign exchange loss (Note 22)	88,822	127,827	51,113	107,813
And after crediting: -				
Interest income (Note 21)	8,433	11,122	581	876
Operating lease income (Note 21)	40,152	28,161	40,152	27,160
Gain on disposal of property, plant and equipment (Note 21)	210	1,292	-	-
Foreign exchange gain (Note 21)	88,380	57,469	25,250	10,009

27. BASIC AND DILUTED EARNINGS PER SHARE

Net profit attributable to ordinary shareholders (KShs'000)	731,230	599,505	666,677	419,238
Weighted average number of ordinary shares in '000'	106,772	71,181	106,772	71,181

Basic and diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

There were no dilutive potential shares as at 31 December 2021 and as at 31 December 2020.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

28. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Cash and bank balances	676,874	334,139	538,607	242,339
Bank overdraft (Note 15)	(15,053)	(30,291)	(8,297)	(30,291)
Cash and cash equivalents	661,821	303,848	530,310	212,048

29. PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

(i) As lessor:

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

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Within 1 year	13,111	11,919	13,111	11,919
Within 5 years	1,182	13,971	1,182	13,971
	14,293	25,890	14,293	25,890

b) Provisions

The group is involved in a number of legal proceedings which are yet to be concluded upon. The directors evaluate the status of these exposures on a regular basis to assess the probability of incurring related liabilities. Provisions are recognised when the group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Of the KShs 94 million estimate, KShs 17.4 million has been provided for (2020: KShs 7.9 million).

	GROUP & COMPANY	
	2021 KShs'000	2020 KShs'000
At 1 January	7,915	15,680
Reversal of provision (Note 21)	-	(7,765)
Provision during the year	9,496	-
At 31 December	17,411	7,915

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

c) The group's capital commitments as at year end were nil (2020: Nil).

d) Bank facilities

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Letters of credit	-	-	-	-
Avalised bills	12,729	28,136	12,729	28,136
Documentary collections	455,593	248,462	455,593	248,462
Guarantees given by bankers	2,403	4,472	2,403	4,472
	470,725	281,070	470,725	281,070

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

e) Contingent liabilities and IFRIC 23 Income Tax Uncertainties

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

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

Regal Paints Uganda Limited received an assessment of US\$ 3,741,720,936 relating to Customs assessment for the period January 2017 to December 2019. The company objected to the assessment but has paid 30% of the tax in dispute US\$ 1,122,516,281 on 17 February 2021. The matter was appealed at the Tax Appeals Tribunal on 23 February 2021 and awaits determination. The next hearing is set on 16 May 2022. The deposit payment of 30% with Uganda Revenue Authority of the amount in dispute is as per the requirement by the Uganda tax law whenever a dispute is taken to the Tax Appeals Tribunal.

Crown Paints Tanzania Limited received an assessment of TZShs 165,439,390 relating to income tax for the financial year 2017, withholding tax assessment amounting TZShs 21,277,073 for the financial year 2017 and VAT assessment amounting TZShs 238,726,925 for the financial year 2016. The Tanzania Revenue Authority recovered TZShs 102,814,700 relating to VAT on 1 December 2020, but the company is following up on recovering the amount from the authority given the matter has been appealed. The company objected the full amount, but the objection was not allowed by Tanzania Revenue Authority. The matter was appealed at the Tax Revenue Appeals Board on 20 August 2020 and awaits determination.

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

30. LEASE LIABILITY

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
At 1 January	207,072	233,802	150,093	124,150
Additions	235,116	112,562	115,822	105,064
Interest charge (Note 24)	31,582	24,969	24,213	18,100
Exchange difference	893	7,671	-	-
Rent concession	-	(2,293)	-	(1,858)
Lease terminations	(3,834)	(26,595)	(3,834)	(24,503)
Payments during the year	(178,213)	(143,044)	(108,667)	(70,860)
At 31 December	292,616	207,072	177,627	150,093
Non-current	115,160	127,132	104,419	106,889
Current	177,456	79,940	73,208	43,204
Total	292,616	207,072	177,627	150,093

The entity has applied the practical expedient to all rent concessions that meet the conditions. The amount recognised in profit or loss for the period ended 31 December 2021 to reflect the changes in the lease payments that arose from rent concessions to which the lessee applied the practical expedient amounts to KShs Nil (2020: KShs 2,293,000) for the group and KShs Nil (2020: KShs 1,858,000) for the company.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Financial assets measured at amortised cost				
Cash and bank balances	676,874	334,139	538,607	242,339
Trade and other receivables	1,458,682	1,213,440	1,175,339	1,012,889
Amounts due from related companies	231	104,136	40,939	175,701
	2,135,787	1,651,715	1,754,885	1,430,929
Financial liabilities measured at amortised cost				
Bank overdraft	15,053	30,291	8,297	30,291
Bank loans	517,821	807,322	396,770	694,344
Short term notes	527,574	510,881	527,574	510,881
Lease liabilities	292,616	207,072	177,627	150,093
Amounts due to related companies	67,326	44,019	89,627	49,901
Trade and other payables	2,868,073	2,024,730	2,380,663	1,676,777
	4,288,463	3,624,315	3,580,558	3,112,287

The amounts in the table above are the carrying amounts of the financial instruments at the reporting date. All the financial assets are classified financial assets measured at amortized cost. All financial liabilities are classified financial liabilities measured at amortized cost.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Interest rate risk

The group's exposure to the risk of changes in market interest rates relates primarily to the company's loans, bank overdraft and short term notes. The group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The group's exposure to the risks associated with changes in interest rates is minimal as its borrowings are pegged to bank's base rate. The base rate does not vary significantly over time.

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

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

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2021	Increase by 2%	(21,209)	(14,846)	(18,653)	(13,057)
	Decrease by 2%	21,209	14,846	18,653	13,057
2020	Increase by 2%	(26,634)	(20,227)	(24,105)	(18,533)
	Decrease by 2%	26,634	20,227	24,105	18,533

Credit risk

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

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The amounts that best represent the group's and company's maximum exposure to credit risk as at 31 December 2021 were as follows:

GROUP	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
As at 31 December 2021					
Trade receivables	1,465,915	52,502	378,213	(502,328)	1,394,302
Other receivables	63,352	868	160	-	64,380
Amount due from related companies	46,833	30,297	223,998	(300,897)	231
Bank balances	670,672	-	-	-	670,672
Adhesives	2,246,772	83,667	602,371	(803,225)	2,129,585

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

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	8%	16%	44%	63%	100%	
Estimated total gross carrying amount - third party	1,370,936	94,979	52,502	55,130	323,083	1,896,630
Expected credit loss	(106,215)	(15,197)	(23,101)	(34,732)	(323,083)	(502,328)
	1,264,721	79,782	29,401	20,398	-	1,394,302

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies:						
Expected credit loss rate (%)	15%	55%	62%	77%	99.9%	
Estimated total gross carrying amount - third party	-	-	-	-	(519,786)	(519,786)
Expected credit loss	-	-	-	-	(519,555)	(519,555)
	-	-	-	-	231	231

COMPANY	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
As at 31 December 2021					
Trade receivables	1,247,363	14,198	229,293	(325,156)	1,165,698
Other receivables	9,641	-	-	-	9,641
Amount due from related companies	156,556	54,230	659,034	(828,881)	40,939
Bank balances	537,649	-	-	-	537,649
	1,951,209	68,428	888,327	(1,154,037)	1,753,927

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

COMPANY (continued)

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	3%	12%	31%	47%	100%	
Estimated total gross carrying amount - third party	961,271	221,507	32,079	27,297	248,700	1,490,854
Expected credit loss	(28,241)	(25,407)	(10,105)	(12,703)	(248,700)	(325,156)
	933,030	196,100	21,974	14,594	-	1,165,698

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies:						
Expected credit loss rate (%)	40%	55%	62%	75%	100%	
Estimated total gross carrying amount - third party	33,454	7,483	26,775	29,318	991,449	1,088,479
Expected credit loss	(13,376)	(4,116)	(16,601)	(21,998)	(991,449)	(1,047,540)
	20,078	3,367	10,174	7,320	-	40,939

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

GROUP

As at 31 December 2020	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,106,928	102,326	637,470	(639,085)	1,207,639
Other receivables	5,335	325	141	-	5,801
Amount due from related companies	109,686	6,046	415,595	(427,191)	104,136
Bank balances	333,229	-	-	-	333,229
	1,555,178	108,697	1,053,206	(1,066,276)	1,650,805

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	4%	14%	31%	50%	89%	
Estimated total gross carrying amount - third party	834,704	272,224	102,326	76,279	561,191	1,846,724
Expected credit loss	(33,388)	(38,112)	(31,721)	(38,140)	(497,724)	(639,085)
	801,316	234,112	70,605	38,139	63,467	1,207,639

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies:						
Expected credit loss rate (%)	49%	49%	53%	48%	90%	
Estimated total gross carrying amount - related parties	100,106	9,580	6,046	7,443	408,152	531,327
Expected credit loss	(49,052)	(4,694)	(3,205)	(3,573)	(366,667)	(427,191)
	51,054	4,886	2,841	3,870	41,485	104,136

COMPANY:

As at 31 December 2020	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,019,020	55,441	339,186	(404,656)	1,008,991
Other receivables	3,432	325	141	-	3,898
Amount due from related companies	161,814	57,085	821,451	(864,649)	175,701
Bank balances	241,724	-	-	-	241,724
	1,425,990	112,851	1,160,778	(1,269,305)	1,430,314

As at 31 December 2020	<30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	<121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	4%	14%	23%	50%	100%	
Estimated total gross carrying amount - third party	794,083	224,937	55,441	20,856	318,334	1,413,647
Expected credit loss	(31,763)	(31,491)	(12,642)	(10,426)	(318,334)	(404,656)
	762,320	193,446	42,799	10,426	-	1,008,991

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

COMPANY (continued)

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies:						
Expected credit loss rate (%)	15%	49%	53%	48%	100%	
Estimated total gross carrying amount - related parties	123,792	38,021	57,085	46,093	775,359	1,040,350
Expected credit loss	(18,279)	(18,631)	(30,255)	(22,125)	(775,359)	(864,649)
	105,513	19,390	26,830	23,968	-	175,701

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	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Assets in foreign currencies				
Trade and other receivables	2,130	60,839	-	44,763
Cash and bank balances	60,188	9,204	42,622	6,717
Foreign currency assets	62,318	70,043	42,622	51,480
Liabilities in foreign currencies				
Payables	(1,305,991)	(966,989)	(1,170,685)	(875,501)
Bank overdraft	(7,785)	-	(1,027)	-
Bank loans	(249,815)	(462,329)	(164,520)	(352,277)
Foreign currency liabilities	1,425,990	112,851	1,160,778	(1,269,305)
Net foreign currency liability position	(1,501,273)	(1,359,275)	(1,293,610)	(1,176,298)

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	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
USD					
2021	Increase by 4%	(60,051)	(42,036)	(51,744)	(36,221)
	Decrease by 4%	60,051	42,036	51,744	36,221
2020	Increase by 4%	(54,371)	(40,778)	(47,052)	(35,289)
	Decrease by 4%	54,371	40,778	47,052	35,289

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

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

GROUP

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(15,053)	-	-	-	-	-	(15,053)
Lease liability	(11,589)	(20,025)	(10,565)	(9,208)	(18,144)	(254,904)	(324,435)
Bank loans	(239,443)	(31,160)	(10,604)	(17,258)	(10,604)	(295,670)	(604,739)
Short term notes	(152,805)	(282,784)	(99,071)	-	-	-	(534,660)
Trade payables	(1,848,007)	(278,999)	(69,181)	(68,944)	(111,191)	-	(2,376,322)
Other payables	(44,206)	-	-	-	-	-	(44,206)
Accruals	(440,457)	-	-	-	-	-	(440,457)
Amounts due to related companies	(35,862)	(12,834)	-	(5,765)	(12,865)	-	(67,326)
Total financial liabilities	(2,787,422)	(625,802)	(189,421)	(101,175)	(152,804)	(550,574)	(4,407,198)

GROUP

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(30,291)	-	-	-	-	-	(30,291)
Lease liability	(8,792)	(17,817)	(4,135)	(7,949)	(69,940)	(180,236)	(288,869)
Bank loans	(150,028)	(36,818)	(30,689)	(45,833)	(225,397)	(485,111)	(973,876)
Short term notes	(153,609)	(253,882)	(109,868)	-	-	-	(517,359)
Trade payables	(949,704)	(263,185)	(134,916)	(46,892)	(243,789)	-	(1,638,486)
Other payables	(34,422)	-	-	-	-	-	(34,422)
Accruals	(243,362)	-	-	-	-	-	(243,362)
Amounts due to related companies	(11,202)	(15,784)	(3,890)	(5,048)	(8,095)	-	(44,019)
Total financial liabilities	(1,581,410)	(587,486)	(283,498)	(105,722)	(547,221)	(665,347)	(3,770,684)

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

COMPANY

As at 31 December 2021	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	Total KShs'000	>120 days KShs'000
Financial liabilities							
Bank overdraft	(8,297)	-	-	-	-	-	(8,297)
Lease liability	(7,624)	(13,174)	(6,950)	(6,058)	(11,937)	(167,700)	(213,443)
Bank loans	(185,615)	(24,155)	(8,220)	(13,378)	(8,220)	(229,202)	(468,790)
Short term notes	(152,805)	(282,784)	(99,071)	-	-	-	(534,660)
Trade payables	(1,681,330)	(199,133)	(37,227)	(49,016)	(72,288)	-	(2,038,994)
Other payables	(34,542)	-	-	-	-	-	(34,542)
Accruals	(307,127)	-	-	-	-	-	(307,127)
Amounts due to related companies	(36,418)	(24,905)	(5,986)	(914)	(21,404)	-	(89,627)
Total financial liabilities	(2,413,758)	(544,151)	(157,454)	(69,366)	(113,849)	(396,902)	(3,695,480)

COMPANY

As at 31 December 2020	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	Total KShs'000	>120 days KShs'000
Financial liabilities							
Bank overdraft	(30,291)	-	-	-	-	-	(30,291)
Bank loans	(146,454)	(33,244)	(27,115)	(41,674)	(197,974)	(368,068)	(814,529)
Short term notes	(153,609)	(253,882)	(109,868)	-	-	-	(517,359)
Trade payables	(905,766)	(232,754)	(120,884)	(15,648)	(91,741)	-	(1,366,793)
Other payables	(31,806)	-	-	-	-	-	(31,806)
Accruals	(169,718)	-	-	-	-	-	(169,718)
Lease liabilities	(5,158)	(14,183)	(501)	(4,316)	(40,870)	(153,125)	(218,153)
Amounts due to related companies	(11,202)	(15,784)	(3,890)	(5,048)	(8,095)	-	(44,019)
Total financial liabilities	(1,454,004)	(555,729)	(262,258)	(66,686)	(338,680)	(521,193)	(3,198,550)

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.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

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

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

32. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

Management assessed that the fair value of trade receivables, amounts due from related companies, cash and cash equivalents, trade payables, short term notes, current bank loans and amounts due to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy

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

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

Assets measured at fair value:

GROUP	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2021				
ASSETS				
Property, plant and equipment	-	-	1,714,007	1,714,007
31 December 2020				
ASSETS				
Property, plant and equipment	-	-	1,172,049	1,172,049
COMPANY				
31 December 2021				
ASSETS				
Property, plant and equipment	-	-	1,410,601	1,410,601
31 December 2020				
ASSETS				
Property, plant and equipment	-	-	1,172,049	1,172,049

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Reconciliation of level 3 assets

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
At 1 January	1,172,049	1,214,365	1,172,049	1,214,365
Additions	301,920	118,161	259,871	118,161
Disposals	(4,283)	(1,148)	(4,214)	(1,148)
Revaluation adjustment	120,700	-	38,938	-
Reversal of impairment	55,301	-	92,237	-
Reclassification	257,472	-	-	-
Exchange difference	9,297	-	-	-
Depreciation charge	(198,449)	(159,329)	(148,280)	(159,329)
At 31 December	1,714,007	1,172,049	1,410,601	1,172,049

The fair values of property, plant and equipment presented in the table above are based on valuations performed by Sterling Valuers, accredited independent valuers, on 31 January 2021 plus purchases during the years, net of depreciation charge and assets disposed.

Basis of valuation:

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

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

Methodology:

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

- a) **Comparable Approach:** This method considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.
- b) **Depreciated Replacement Cost:** Is the current cost of reproduction or replacement of an asset less deductions for physical deterioration, and all relevant forms of obsolescence and optimization.

Fair values of financial instruments

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

33. OPERATING SEGMENT INFORMATION

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

Operating Segments

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

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

The adhesives segment manufactures and sells adhesives.

Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Segment information is as presented below.

31 December 2021

Assets and liabilities	Paints KShs'000	Adhesives KShs'000	Elimination KShs'000	Total KShs'000
Segment assets	7,808,972	74,204	(75,828)	7,807,348
Investment in subsidiary	1,014,277	-	(1,014,277)	-
Total assets	8,823,249	74,204	(1,090,105)	1,172,049
Segment liabilities	4,953,734	27,238	(603,813)	4,377,159
Other segment information	Paints KShs'000	Adhesives KShs'000	Elimination KShs'000	Total KShs'000
Capital expenditure - property, plant and equipment and intangible assets	336,657	350	-	337,007
Depreciation and amortisation	375,552	585	-	376,137
Revenue				
Sales to external customers	10,388,257	344,923	-	10,733,180
Inter segment sales	397,844	107,965	(505,809)	-
Interest income	8,433	-	-	8,433
Other income	366,902	555	-	367,457
Interest expense	182,919	366	-	183,285
Impairment loss on investment in subsidiaries	(5,000)	-	-	(5,000)
Results				
Operating results	1,128,001	1,080	(4,681)	1,124,400
Income tax expense	(392,385)	(785)	-	(393,170)
Profit for the year	735,616	295	(4,681)	731,230

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

33. OPERATING SEGMENT INFORMATION (continued)

31 December 2020

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

Revenue from external customers	2021 KShs'000	2020 KShs'000
Kenya	9,298,211	8,110,888
Uganda	553,634	482,676
Tanzania	719,612	425,721
Rwanda	161,723	172,419
Total revenue	10,733,180	9,191,704

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	2021 KShs'000	2020 KShs'000
Kenya	1,711,173	1,446,592
Uganda	277,786	200,286
Tanzania	104,247	107,132
Rwanda	42,566	16,433
Total	2,135,772	1,770,443

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

34. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES

Crown Paints Tanzania Limited and Regal Paints Uganda Limited have a history of losses and rely on the parent company for provision of working capital. Crown Paints Allied Industries Limited and Crown Paints Rwanda Limited however, maintained their profitability. The two loss making subsidiaries' ability to continue as a going concern depends on the continued support, they receive from the parent company.

The parent company has confirmed its commitment to continue giving financial support to the subsidiaries and has issued an undertaking in this respect to each of the subsidiaries. The undertaking affirms the parent company's commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries to meet their financial obligations, as and when they fall due, and to ensure they continue trading in the foreseeable future.

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

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

35. CAPITAL RISK MANAGEMENT

The group manages its capital to ensure that it will be able to continue as a going concern while optimising the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the group consists of debt, which includes borrowings, cash and cash equivalents, issued capital and retained earnings. The group's capital requirements are currently met through internally generated funds from operations and external borrowing in the form of bank loans and short-term notes. To maintain its capital structure, the group may adjust dividend payment to shareholders. Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	2021 KShs'000	2020 KShs'000
Share capital	711,810	355,905
Share premium	392,097	80,174
Retained earnings	2,106,701	1,340,432
Equity	3,210,608	1,776,511
Total borrowings	1,045,395	1,318,204
Less cash and cash equivalents (Note 28)	(661,821)	(303,848)
Net debt	383,574	1,014,356
Total capital	3,594,182	2,790,867
Gearing ratio	11%	36%

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

There are no conditions that would warrant impairment of non-financial assets.

The group continues to be steadfast in implementing the government directives on measures aimed at reducing impact of the COVID-19 pandemic to ensure that staff and customers are safe. The board has put in place a strong business continuity plan to ensure there is minimal business interruptions.

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

37. EVENTS AFTER THE REPORTING PERIOD

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

To: The Registrar
Custody & Registrar Services Limited
IKM Place, Tower B
1st Floor, 5th Ngong Avenue
P. O. Box 8484 – 00100
NAIROBI

PROXY FORM

CROWN PAINTS KENYA PLC

I/We _____

Share A/c No _____

of (address) _____

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

of (address) _____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixty Fifth Annual General Meeting of the Company to be held on Tuesday, 28 June 2022 at 11.00am and at any adjournment thereof.

As witness I/We lay my/our hand (s) this _____ day of _____ 2022.

Signature _____

Signature _____



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