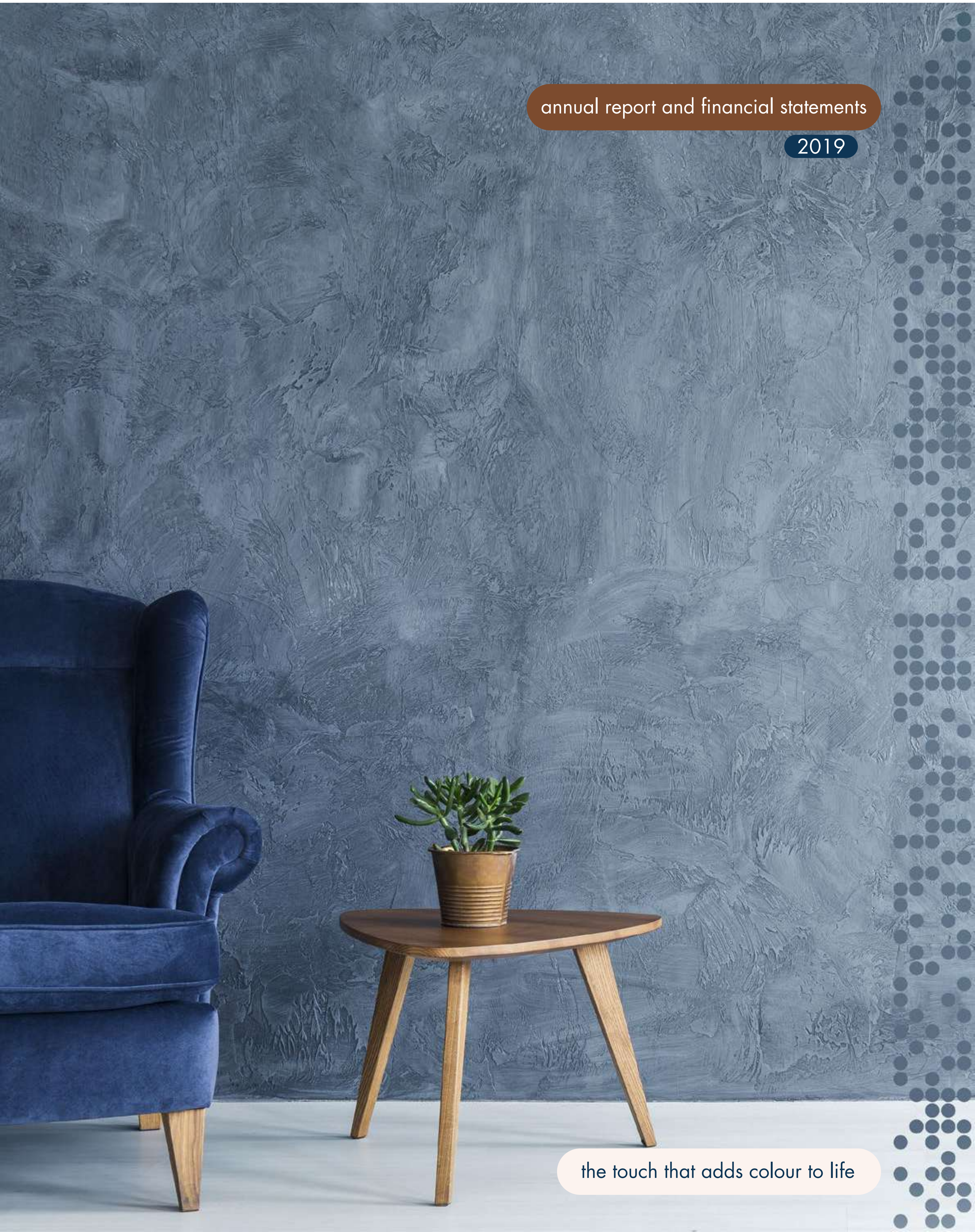
If you like it... Crown it!

annual report and financial statements

2019



the touch that adds colour to life

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NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 62nd Annual General Meeting of the Company will be held at the Sarova Panafric Hotel, Kenyatta Avenue, Nairobi on 27 June 2019 at 11.00 am to conduct the following business:

1 To read the notice convening the meeting.

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

3 To consider and, if approved, adopt the audited Financial Statements for the year ended 31 December 2018 together with the Directors' and Auditors' Reports thereon.

4 To declare a final dividend of KShs 0.60/= per ordinary share for the financial year ended 31 December 2018, and approve the closure of the Register of Members at 4.30 pm on 27 June 2019 for one day only.

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

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

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

7 To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31st December 2019 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2019.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 22 May 2019

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

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

SHARE REGISTER PERIODIC REPORT FOR JUNE 2020

RANK	NAME	RESIDENCE	TOTAL SHARES	%
1	CROWN PAINTS AND BUILDING PRODUCTS LTD	LC	34,462,365	48.42%
2	BEAUMONT PROPERTIES LIMITED	FC	15,959,737	22.42%
3	BARCLAY HOLDINGS LIMITED	FC	9,702,000	13.63%
4	PATEL,MAHENDRA DAHYABHAI PATEL	LI	672,060	0.94%
5	STANBIC NOMINEES LTD A/C NR1030823	FC	639,000	0.90%
6	GADHI,PULIN MAHENDRA KUMAR GADHI	LI	603,477	0.85%
7	KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH BABLA	LI	303,600	0.43%
8	DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	LC	280,188	0.39%
9	SHAH,MINESH MULCHAND SHAH	LI	275,490	0.39%
10	SHAH,SAVITABEN VELJI RAICHAND SHAH	LI	220,275	0.31%
11	ZAVERCHAND PUNJA WAREHOUSES LTD	LC	211,200	0.30%
12	OGANGO,JOHN OKUNA OGANGO	LI	187,900	0.26%
13	SHAH,BIJAL MULCHAND SHAH	LI	127,312	0.18%
14	SHAH,NISHITKUMAR RAMNIKLAL SHAH	LI	114,900	0.16%
15	THAWER,ABDULRASUL ISMAIL THAWER	FI	110,550	0.16%
16	CFCFS NOMINEES LIMITED A/C HRJC	LC	102,700	0.14%
17	SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	LI	99,000	0.14%
18	SHAH,PRAFULKUMAR HEMRAJ SHAH	LI	98,640	0.14%
19	SHAZIQUE ENTERPRISES LIMITED	LC	94,710	0.13%
20	PARESH P UPADHYAY & HASMUKH A JOSHI	LI	89,100	0.13%
21	SURESHCHANDRA RAICHAND SHAH	LI	83,127	0.12%
22	SHAH,SAROJBEN PRAFULKUMAR SHAH	LI	82,020	0.12%
23	SHAH,SANDIP VELJI SHAH	LI	78,621	0.11%
24	RAJNIKANT NATHOOBHAI SHAH	LI	77,220	0.11%
25	RAYANI,SHAMSUDIN J. A. RAYANI & ROSINAKHANU S.	LI	74,568	0.10%
26	ASSI,SANTOKH SINGH ASSI	FI	69,630	0.10%
27	MUCHINYI,SILVESTER MUCHINYI	LI	69,600	0.10%
28	RUPAM GULABSI BHATIA	LI	66,000	0.09%
29	JOHN WAHOME MURAGE	LI	65,505	0.09%
30	PATEL,RAMABEN SUMANTRAI PURSOTTAM PATEL	LI	64,000	0.09%

SHARES SELECTED	**65,084,495**	**91.44%**
SHARES NOT SELECTED - 2,540 Shareholders	**6,096,505**	**8.56%**
SHARES ISSUED	**71,181,000**	**100.00%**

TOTAL NUMBER OF CROWN PAINTS SHAREHOLDERS	**2,585**

NO. OF CROWN PAINTS SHAREHOLDERS AT THE CDSC	**1,837**
NO. OF CROWN PAINTS SHARES HELD AT THE CDSC	**58,213,095**

SHARE REGISTER PERIODIC REPORT FOR JUNE 2020 (CONTINUED)

DEMAT ANALYSIS	SHARES	%	HOLDERS
CDSC	58,213,095	81.78%	1,837
CERTIFICATED	12,967,905	18.22%	748
TOTALS	**71,181,000**	**100%**	**2,585**

ANALYSIS BY DOMICILE	SHARES	%	HOLDERS
FOREIGN COMPANIES	26,339,137	37.00%	6
FOREIGN INDIVIDUALS	298,080	0.42%	24
LOCAL COMPANIES	35,968,142	50.53%	179
LOCAL INDIVIDUALS	8,575,641	12.05%	2,376
TOTAL	**71,181,000**	**100.00%**	**2,585**

ANALYSIS BY VOLUME			
VOLUME	**SHARES**	**%**	**HOLDERS**
1 - 500	175,176	0.25%	1,164
501 - 5000	2,227,698	3.13%	1,135
5001 - 10000	1,000,733	1.41%	136
10001 - 100000	3,804,639	5.35%	134
100001 - 1000000	3,848,652	5.41%	13
>1000000	60,124,102	84.47%	3
TOTALS	71,181,000	100.00%	2,585

CHAIRMAN'S STATEMENT

Our valued shareholders,
It is my pleasure to present our 2019 financial results, amidst great challenges being witnessed both in Kenya and regionally. We are truly living through a defining moment, and as we approach our 63rd year, here at Crown, it has become clear to us that the way we will respond to this challenge will determine our present and future.

Drawing from our mission, we remain steadfast about transforming people's lives and our commitment remains true. Therefore, in response to the challenge before us, we commit greater effort to harness and leverage on our relationships with employees, customers, partners and the government. Our aspiration is to ensure our future remains sustainable.

Looking forward, during these uncertain times, new business practices and strategies will continue to be explored and adopted to guarantee profitability. Some of these strategies are captured in the ensuing statement.

Improved Customer Experience

To begin with, we continue to nurture a culture of innovation and productivity and have reaffirmed our relationship with our customer by placing them at center of our operations. We want our customers to immerse themselves in what we do, and possibly to play a part in the evolution of our products. Presently, all employees and partners are integrated into our product & process quality improvement. Here, they are coopted and engaged in the ideation, evaluation and implementation of new products or processes. It has been a big success for us, and I am happy to report that our efforts in this regard, have not gone unnoticed. We were crowned winners of the coveted Innovation and Productivity Award 2019, during the FKE Employer of the year awards.

Digital Transformation Agenda

Our digital transformation agenda, which is tailored to improve efficiency, and allow for a stress-free user experience, has already borne fruit. In deploying robotic process automation across the Group, we have reduced service delivery across board. For instance, one of our reward programs in Kenya and now in Uganda, has reduced its processing time from 4 hours to a few seconds. We envisage that our continued adoption of the digital platforms will not only improve service delivery across the Group but will also improve product uptake.

Harnessing and Developing Synergies

We know we can't do amazing things alone, but as the African proverb says, 'if you want to go fast go alone, if you want to go far, go together.' To drive business growth and exploit untapped market segments, we intend to work with our strategic alliances to harness and develop synergies, for our mutual benefit. Through our German based partner, Wacker Chemie PLC, a leading chemical in the specialty chemical division; we launched the Wacker Silicone Sealants to tap into the sealants market. Additionally, we have partnered with Italian brand Candis to offer another first, from Crown Paints, a range of designer interior paint finishes to tap into the growing demand for unique finishes in high end housing.

In Tanzania, we have changed our business model and engaged a strategic partner with a well-entrenched network to execute our distribution strategy. This will reduce our overheads and should result in profitability.

Corporate Governance

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

Looking forward

The Board continues to think and act for the long term and remains focused on the principles and values that have enabled Crown attain the brand of choice status. Whereas profitability continues to be one of our core objectives, the spread of the Corona virus worldwide which has disrupted economies, spread fear and led to deaths of tens of thousands of people around the world, it is imperative that we recognize the impact it has on our customers, staff, business and the economy in general. The health of everyone in our ecosystem is paramount to the success that we put all our efforts towards business sustainability. Crown will hence continue to pivot on innovations, seek new raw material sources, and leverage on our brand's strength and networks, to deliver value to the shareholders.

On behalf of my fellow board members, I wish to thank all Crown Paints employees and our key partners in the building fraternity, dealers and painters for their continued dedicated efforts this year.

And finally, I would like to thank you, our shareholders for your continued support. Crown Paints is well placed, as the leading paint brand in the region for growth opportunities and a hinged on a performance-driven culture on ongoing success.

Mhamud Charania
Chairman
7 July 2020

BOARD OF DIRECTORS

1 **PATRICK MWATI**
Finance Director

2 **FRANCIS MAINA**
Non Executive Director

3 **RAKESH RAO**
Group Chief Executive Officer

4 **STEPHEN OUNDO**
Non Executive Director

5 **HUSSEIN RAMJI**
Vice Chairman

GROUP CHIEF EXECUTIVE OFFICER STATEMENT

Dear Shareholders and Stakeholders,

In my over 15 years tenure with Crown, I have witnessed it evolve from just a paint company, to a design partner that lights up and transforms spaces. During this time, Crown Paint's has diversified its range of quality-driven products; providing innovative arrays of finishes. The product range includes designer, textured, automotive, wood, road marking and industrial paints, adhesives, waterproofing solutions and paint accessories catering for a variety of tastes as well as budgets. In doing this, we have remained the preferred choice for homeowners, painters, architects and professionals.

Business environment and Performance

Overall, Crown Paints Group's company performance has been a mixed in 2019. Our subsidiaries Crown Paints Tanzania Ltd, Regal Paints Uganda Ltd and Crown Paints Rwanda Ltd remained relatively low while the Kenyan performance, though remaining profitable declined marginally due to harsh economic environment.

The Group's revenue grew by 3% to Ksh 288M compared to a growth of 13% in 2018 to Ksh 964M. At profit level, the company performance was quite impressive registering 33.4% profit increase from Ksh 395 million recorded in 2018 to Ksh 527 million in 2019.

In the year under review, the East Africa construction sector, hinged on the Kenyan Government's big 4 agenda on affordable housing, experienced a slump and being one of our mainstays affected our revenues adversely. The slump in the industry came about due to the prolonged rains making conditions for construction unfavorable, coupled with liquidity challenges leading to a lower uptake on our products. I am happy to inform you that Rwanda is now on the path to recovery and Uganda and Tanzania are expected to catch up in a similar trajectory in 2021.

Our sales volume however increased to a record high producing an average of 3M liters or paint per month. In a bid to sustain the momentum, we continue to reshape the sales and marketing capabilities of the businesses to drive growth and retain our customer base through innovative products, offers and services to meet customer needs.

The digital engagement

In line with the boards Vision, our digital transformation strategy continues to be a focus to improve service delivery for our customers. In the year under review, data analytics project was implemented to provide predictive customer insights, improve sales and operational. In addition, The Crown Color App which provides a color selection and matching for customers, witnessed increased customer engagement recording over 50,000 downloads.

The Operating Strategy

Our strategy execution journey continued through our key initiatives such as cost savings, expansion, growth of painter loyalty program and introduction of new products to meet the ever-changing market needs.

Some key product launches included an economy auto paint Crown Motocryl for the Jua Kali sector. The Premium end of the market saw us introduce Candis range of Italian interior designer finishes and Crown Ultraguard Protect offering superior exterior wall protection from extreme weather conditions that cause dilapidation of buildings and loss of value in the property market.

We retain the most extensive dealer network in Kenya in both semi-urban and rural areas, including depots and Crown Décor world class showrooms countrywide. Our growth and expansion journey remained a focus to ensure we not only got closer to our customers but in new innovative ways for instance, we introduced 6 new Depots and showrooms across the region. Additionally, we purposed to make the purchase experience more immersive and launched a mini-showroom concept in partnership with existing dealers for a shop in shop model offering paint through a mix as you wait and product sample displays, to meet the changing customer needs. This has proved to be a success with most dealers recording increased traffic to their shops.

Painter loyalty Programs

I am proud to announce that we extended the successful painter loyalty program Team Kubwa to Regal Uganda. The number of painters has grown to a record high of over 150,000 across the region, continuously engaging them through enhanced training programs on latest paint technologies and offering them rewards for purchase of our products. To deliver convenience to painters, we introduced instant shopping vouchers for redemption for purchase of Crown Paints products, another first from a paint company in East Africa.

Service Excellence

Our people are our most important asset. They are the custodians of our vision and mission. In this regard, we have put in place a high-performance management process, that will ensure we retain the best talent with the skills and experience needed to drive us forward. The development of our staff through training remains a key strategy; where we balance between business and personal needs while focusing on service excellence. 95% of Crown employees, under the year in review, went through the 'Up Your Service' training as part of our employee development strategy. In return for this commitment, we guarantee a safe environment for our employees to work and this was enhanced in line with the outbreak of the Covid-19 pandemic.

Sustainability Agenda

Our business relies on partnerships with stakeholders and communities in which we operate. At Crown, we take pride in the positive contribution we make in our society by providing jobs and education while caring for the environment.

Unemployment remains a key challenge in the region and we endeavor to empower the youth through technical skills for instance painter training to foster self-employment. In 2019 we upskilled over 10,000 youths across East Africa in this initiative.

In our continued effort to transform spaces and communities, we worked with schools and students who are the future of our Nation. We reached out to young people through schools to educate them on the mechanism of painting and the impact color has on people's lives. Over the last years, over 5,000 students have visited our factories for this hands-on experience. In the year under review, we also carried out more than 50 painting projects across the region to create brighter spaces for schools, hospitals and communities spaces through use of Crown paints and coatings.

We remain committed to protecting our staff, customers and the environment guided by our Safety, Health and Environment (SHE) policy while we continue to produce ecofriendly products.

Outlook

Staying as the no. 1 brand is a continuous challenge especially with the current world that is changing at a breathtaking pace influenced by digital and social dynamics. So too are our customers, necessitating a change in how we engage and do business. This confluence of market shifts, demands that we think and act differently; to move faster, to evolve and to embrace new ways to engage our employees, customers, and other stakeholders in their entirety. In our continued effort to better serve our diverse and increasingly global, astute customer base, we shall need to develop new and innovative products and services that match their changing needs.

However, against the backdrop of Covid-19 and its effects on the economy, the immediate future is uncertain. We are aware that challenges loom. Nevertheless, we are committed to realizing sustainable growth by providing superior value through developing and implementing of adaptive strategies.

Let me close, by thanking my employees at all levels for their hard work and dedication without whom we could not transform the East African spaces, people's lives and communities around us.

I would like to thank the Crown Paints Board for its ongoing guidance; my sincere thanks to you, our shareholders, for your continued trust and confidence in us. We are committed to put our efforts towards business sustainability.

Rakesh Rao
Group CEO
21 July 2020

CORPORATE SOCIAL RESPONSIBILITY

At Crown, we are more than just a paints company, and as part of our transformation agenda to positively impact lives in our community, we undertook various CSR initiatives to:

1. Support the vulnerable and youth in society who are the future of this nation
2. Transform schools, children's homes and hospitals to create a colourful ambiance that is happy, exciting and stimulating
3. Environmental conservation

It was all smiles on Valentines Day at **Kirigiti Girls Rehabilitation and Rescue centre** as we crowned the girls with love through donation of food stuff and personal effects. The center is home to 80 Girls drawn from different counties all over Kenya.

We partnered with **Zabibu Rehabilitation Centre**, a nonprofit rescue centre offering vocational and technical training programmes for teens and learners living with disabilities and special needs. Crown offered food donations, paint transformation of their learning centre, painter training programmes and featured selected students in the Crown 2020 year calendar. The calendar sought to celebrate people in society living their life in color.

In partnership with Amrita Centre Kenya, we sought to positively transform lives of those with eye cataracts. More than 300 patients underwent cataract surgery treatment during a weeklong exercise at Mediheal Hospital in Eldoret.

Paint transformations:
Makadara Primary School
Friends School Secondary Milani

In partnership with Rhino Ark, a charitable trust that develops sustainable solutions to the challenges facing mountain forest ecosystems. Crown sponsored **Rhino Charge** a fund-raising event for the conservation of Water Towers of Kenya.

Crown believes that education is a key pillar of success and in this regard we partnered with **Kenya National Spelling Bee**, the largest English language spelling competition which aims at promoting a reading culture. Crown awarded the winning school, Nyamnina Primary School with a paint makeover worth half a million.

We have also hosted over 100 factory visits as at the end of 2019. The visits serve to provide real life application to students. **Kenya Army School Ordance** were among the students we hosted in 2019

Introduction

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

In Crown Paints Kenya PLC (Crown), we remain committed to the standards of Corporate Governance and business ethics. Towards this Crown has established and maintains systems that ensure the high standards are at all levels. Crown does not only comply with the standards of the Capital Market Authority Code of Corporate Governance Practices for Issuers of Securities to the Public in Kenya but is committed to embed internal rules of engagement that support Corporate Governance. These internal rules are constituted in the Code of business conduct to which each employee is committed to. The Board of Directors governs Crown in a way that maximizes shareholder value and is in the best interest of the society.

Governing Body of Crown Paints Kenya PLC

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

The Board of Directors

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

The operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board.

Responsibilities

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

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

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

Composition of the Board

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. The current composition of the Board is given on page 15.

Board Meetings

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

Board Committees

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

a) Audit and Risk Committee
   The audit committee chaired by a Non-Executive Director and with attendance by invitation, the Chief Executive Officer and other key personnel. It reports to the board. Among its functions include:
   1. Review of risk management and internal controls
   2. Review of Financial reporting and disclosure
   3. Oversight of external auditor and internal Audit.

b) Nomination and Remuneration Committee
   This committee chaired by a Non-Executive Director. It is responsible for:
   1. reviewing the balance and effectiveness of the board.
   2. the remuneration of the directors and senior management
   3. succession planning at the board level and proposing new nominees for appointment to the Board

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

Communication with Shareholders

The Company is committed to communicating openly with its shareholders on its performance and addressing any other areas of concern. This is achieved through the releases of notices in the local national press of its half-yearly and annual results in compliance with statutory requirements, issuing of the Annual Report, and the holding of the Annual General Meeting where the shareholders can ask questions and freely interact with the Board. The Company also has a web site **www.crownpaints.co.ke** where information about the organization is regularly updated

Directors' Emoluments and Loans

The non – executive directors are paid a sitting allowance for every meeting attended. They are not eligible to any other remuneration and compensation scheme by the company.
The aggregate amount of emoluments paid to Directors for services is disclosed in Note 22, page 69 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

CORPORATE INFORMATION

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

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

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

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

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

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

SOLICITORS
Kairu Mbuthia Law LLP,
Applewood Adams, 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
6th Floor, Bruce House
Standard Street
P.O. Box 8484 - 00100
Nairobi.

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

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, 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 14.

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 26.

4. COMPANY RESULTS

The results for the year are set out on page 30.

5. DIVIDENDS

Subject to approval by the shareholders, the directors do not recommend the payment of any dividend(2018 :KShs 0.60 (KShs 42,708,600).

6. FINANCIAL STATEMENTS

Except as indicated in Note 35 to the financial statements, the directors are not aware of any circumstances, which would render the values attributed to assets and liabilities in the financial statements of the Group and the Company not as stated in the financial statements.

7. RESERVES

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

8. DIRECTORS

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

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

9. BUSINESS REVIEW

In 2019, the Group's sales volumes grew by 6% to close at 36 million litres (2018:34 million) despite the economy growing at 5.7%. This was on account of slow-down in construction activities in the individual home builders and infrastructure segments, the prolonged rains which created un-favourable weather conditions for construction activities and businesses continued to face liquidity challenges in the market which affected the uptake of our goods.

During the year ended 31 December 2019, Group's revenue grew by 3% (KShs 288 Million) compared to a growth of 13% (KShs 964 million) during the year ended 31 December 2018.

Operating profit increased by 33% to 527Million (2018 395Million) on account of the improved turnover, and slightly lower cost of manufacturing.

During 2019, the market in East Africa was characterised by political and socioeconomic stability. This stability provided us with a conducive environment to operate in as the regional economies experienced steady economic growth, with inflation and currencies remaining stable against major international currencies.

9. BUSINESS REVIEW (continued)

Looking ahead, the business will continue to leverage on the strength of our brand and our network of dealers to deliver sustainable shareholder return, we remain cautiously optimistic given the macro-economic headwinds affecting some of our key markets.

The Board remains cognisant that business risk is inherent to the business and that to achieve our business objectives and strategy they must establish effective risk management. The Board in its overall responsibility to Manage risk, it has overseen the continuous development of risk control procedures that improve the mechanisms for risk identification, evaluation, monitoring and management.

In the Board, the Audit and Risk Committee is tasked with reviewing the Group's risk management programmes. They review the internal audit reports within the year and satisfy themselves that the control environment is adequate to ensure efficient business operations and detection of material errors.

On the day to day operations of the Group, the Chief Executive Officer together with other top management officials ensure implementation and compliance to the risk management procedures and policies. They adopt internal Controls measures that provide reasonable assurance in safeguarding assets, prevention and detection of error, accuracy and completeness of accounting records together with reliability of financial statements.

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

The Board of Directors was optimistic on the performance for 2020 before the outbreak of the Corona Virus (COVID 19) in early 2020. with the revised projections (World Bank) taking into account its effects, the board believes that the GDP growth rate for the region will be significantly below the pre COVID 19 projection rates which may affect the group performance.

Even as the board continues to assure all our stakeholders that we conduct our business in a manner that creates a healthy and safe environment for all our stakeholders; our employees, contractors, communities and customers, and which is built on a sound health and safety culture.

Even as the health and safety requirements become key during this COVID 19 time, the board is undertaking measure that will adopt the "new normal" way of life, to continuously improve our performance and actively minimise risks in our business. The Group, through its corporate social responsibility initiatives, has continued to help needy cases in the society through sponsorship.

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

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

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

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

11. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 723 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 12,023,000 has been charged to profit or loss in the year.

13. GOING CONCERN

The directors have made an assessment of the group's and the company's ability to continue as a going concern and are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 35, the subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the separate and consolidated financial statements.

By Order of the Board

Conrad Nyukuri
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

Having made an assessment of the group's and the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt on the group's and the company's ability to continue as a going concern. As disclosed in note 35, the subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the separate and consolidated financial statements.

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

Approved by the board of directors on 28th June 2020 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Group Finance Director

DIRECTORS' REMUNERATION REPORT

ON THE FINANCIAL STATEMENTS

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

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

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

The fees are approved by shareholders at Annual General Meetings.

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

The executive directors have employment contracts with the Company.

The table below shows the executive and the non-executive directors' emoluments in respect of qualifying services for the year ended 31 December 2019. The aggregate directors' emoluments are disclosed in notes 9 and 22.

ON THE FINANCIAL STATEMENTS (CONTINUED)

31 Decembers 2019

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	-	-	105,816	6,215,208
Hussein H.R.J Charania	Vice- chairman	Executive	43,322,400	3,610,000	-	1,592,895	48,525,295
Rakesh K. Rao	Chief Executive Officer	Executive	41,393,155	3,040,000	-	7,149,478	51,582,633
Patrick M. Mwati	Finance Director	Executive	32,861,400	2,510,000	-	5,834,830	41,206,230
Francis G.K. Maina	Director	Non- executive	-	-	1,027,000	-	1,027,000
Stephen B. Oundo	Director	Non- executive	-	-	941,026	-	941,026
Total			123,686,347	9,160,000	1,968,026	14,683,019	149,497,392

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

** The amount includes payment made for accrued leave days totalling KShs 2,319,998.

ON THE FINANCIAL STATEMENTS (CONTINUED)

31 Decembers 2018

Director	Role	Category	Gross earnings including pension contribution KShs	Annual bonus KShs	Sitting allowances KShs	Other benefits* KShs	Total KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	108,892	6,218,284
Hussein H.R.J Charania	Vice- chairman	Executive	40,082,400	3,340,000	-	2,960,342	46,382,742
Rakesh K. Rao	Chief Executive Officer	Executive	33,722,400	2,810,000	-	5,042,040	41,574,440
Patrick M. Mwati	Finance Director	Executive	30,440,800	2,320,000	-	6,942,266	39,703,066
Francis G.K. Maina	Director	Non- executive	-	-	634,000	-	634,000
Stephen B. Oundo	Director	Non- executive	-	-	814,500	-	814,500
Total			110,354,992	8,470,000	1,448,500	15,051,072	135,327,032

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

** The amount includes payment made for accrued leave days totalling KShs 4,639,996.

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 25 to 86, which comprise the consolidated and separate statements of financial position as at 31 December 2019, 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 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

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

Key audit matter	How our audit addressed the key matter
Impairment consideration of investment in the subsidiaries	
As disclosed in note 6 to the financial statements, the company has an investment in subsidiaries totalling KShs 1.8 billion as at 31 December 2019, representing 33% of the total assets of the company. The subsidiaries have been making losses in the past and the summary of financial performance and financial position of the subsidiaries is further disclosed in note 35 to the financial statements. We focused on the impairment of the investment in the subsidiary companies due to their significance as discussed below: • The investment in subsidiaries is material to the financial statements of the company. • The subsidiaries are loss making and rely on the parent company for provision of working capital. We also focussed on the adequacy of the disclosures of investment in subsidiaries in Note 6 and status of the subsidiary companies in Note 35 to the financial statements, which are significant to the understanding of the amounts invested in the subsidiaries and the status of these subsidiaries.	We carried out procedures to understand management's process for identifying impairment triggers and considered management's assessment of impairment for individual investments. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. We evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation such as projections of sales volume and selling prices, gross margin and discount rates. We involved the Transaction Advisory Services (TAS) team in the review of the assumptions made by management. We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances.

Impairment consideration of investment in the subsidiaries (continued)	
Given that significant judgement has been made by management in determining the expected future cash-inflows, discounting rate, control premium and terminal growth rate in perpetuity of the cashflows and the fact that the disclosures are important to the users' understanding of the financial statements we have considered this as a key audit matter.	We reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due. We assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with IFRS disclosure requirements.

Other Information

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

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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.

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

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

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

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

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

i) in our opinion, the information given in the report of the directors on page 15 - 17 is consistent with the financial statements.

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

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

Nairobi, Kenya

28th June 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,545,745	1,501,813
Right of use assets	30	234,229	-
Intangible assets	4	50,419	37,505
Prepaid leases on land	5	-	7,434
Deferred tax	14	55,790	35,117
		1,886,183	1,581,869
CURRENT ASSETS			
Inventories	7	1,853,155	2,140,212
Trade and other receivables	8	1,224,017	1,249,593
Amounts due from related companies	9(i)	87,677	95,943
Cash and cash equivalents	28	442,793	364,136
Current tax recoverable	10	27,716	43,940
		3,635,358	3,893,824
TOTAL ASSETS		5,521,541	5,475,693
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	951,405	670,955
		1,307,310	1,026,860
NON-CURRENT LIABILITIES			
Lease liability	31	137,251	-
Bank loans	16	438,782	604,760
		576,033	604,760
CURRENT LIABILITIES			
Lease liability	31	96,551	-
Bank overdraft	15	53,550	31,872
Bank loans	16	623,000	606,534
Short term notes	17	1,033,212	1,105,756
Amounts due to related companies	9(ii)	16,498	243,228
Trade and other payables	18	1,779,487	1,848,572
Provisions	29 (b)	15,680	7,915
Current tax payable	10	20,220	196
		3,638,198	3,844,073
TOTAL EQUITY AND LIABILITIES		5,521,541	5,475,693

The financial statements were approved by the Board of Directors on 28th June 2020 and signed on its behalf by:

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Group Finance Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	8,603,652	8,315,910
COST OF SALES	20	(5,185,676)	(5,284,624)
GROSS PROFIT		3,417,976	3,031,286
OTHER INCOME	21	300,732	443,902
		3,718,708	3,475,188
EXPENSES: -			
Net allowance for expected credit losses third party	8	(74,368)	(9,718)
Net allowance for expected credit losses related parties	9	145,494	29,071
Administration and establishment	22	(1,840,929)	(1,764,045)
Selling and distribution	23	(1,115,577)	(1,059,497)
Finance costs	24	(305,354)	(275,064)
		(3,190,734)	(3,079,253)
PROFIT BEFORE TAX	26	527,974	395,935
TAX EXPENSE	10	(210,738)	(212,122)
PROFIT FOR THE YEAR		317,236	183,813
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		136	(9,293)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		136	(9,293)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
TOTAL OTHER COMPREHENSIVE INCOME		136	(9,293)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		317,372	174,520
ATTRIBUTABLE TO:			
Owners of the parent		317,372	174,520
Non- controlling interest		-	-
		317,372	174,520
Basic and diluted earnings per share (KShs)	27	4.46	2.58

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2018		355,905	80,174	101,091	95,968	1,124,478	1,757,616
Impact of IFRS 9 adoption		-	-	-	-	(947,876)	(947,876)
Deferred tax on IFRS 9 adoption		-	-	-	-	79,350	79,350
At 1 January 2018 (restated)		355,905	80,174	101,091	95,968	255,952	889,090
Profit for the year		-	-	-	-	183,813	183,813
Other comprehensive income		-	-	-	(9,293)	-	(9,293)
Total comprehensive Income		-	-	-	(9,293)	183,813	174,520
Transfer of revaluation reserve on disposal		-	-	(1,119)	-	1,119	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	-	336	336
Transfer of excess depreciation- 2018	-	-	(18,743)	-	18,743	-	
Deferred tax on excess depreciation	14	-	-	-	-	5,623	5,623
2017 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
At 31 December 2018		355,905	80,174	81,229	86,675	422,877	1,026,860
At 1 January 2019		355,905	80,174	81,229	86,675	422,877	1,026,860
Profit for the year		-	-	-	-	317,236	317,236
Other comprehensive income		-	-	-	136	-	136
Total comprehensive Income		-	-	-	136	317,236	317,372
-	-	-	-	-	-		
Transfer of revaluation reserve on disposal		-	-	(895)	-	895	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	-	269	269
Transfer of excess depreciation- 2019		-	-	(18,743)	-	18,743	-
Deferred tax on excess depreciation	14	-	-	-	-	5,518	5,518
2018 final dividend paid	13	-	-	-	-	(42,709)	(42,709)
At 31 December 2019		355,905	80,174	61,591	86,811	722,829	1,307,310

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
OPERATING ACTIVITIES			
Profit before tax		527,974	395,935
Adjustments for: -			
Depreciation on property, plant and equipment	3	183,062	142,668
Amortisation of intangible assets	4	14,207	14,893
Amortisation of prepaid leases on land	5	-	265
Amortisation on right of use assets	30	99,035	-
Unrealised foreign exchange loss		32,813	44,363
Unrealised foreign exchange gain		(26,078)	(52,501)
Interest expense	24	305,354	275,064
Interest income	21	(12,217)	(2,270)
Allowance for bad debts – third parties	8	259,778	177,779
Allowance for bad debts – related parties	9	13,262	14,345
Bad debts written off	23	6,649	5,903
Leave accrual write back	21	(14,068)	(790)
Inventory write-down	7	36,657	41,600
Reversals of inventory write down	7	(23,008)	(41,776)
Provision for legal cases	29 (b)	7,765	7,915
(Gain)/ loss on disposal of property, plant and equipment	21& 22	(3,388)	1,021
Operating profit before working capital changes		1,407,797	1,024,414
Increase in trade and other receivables		(247,739)	(143,221)
(Decrease)/increase in inventories		273,408	(255,762)
Decrease in trade and other payables		(55,017)	(298,995)
Increase in amounts due from related parties		(4,996)	(31,847)
Decrease/ (increase) in amounts due to related parties		(226,730)	95,442
Cash generated from operations		1,146,723	390,031
Income tax paid	10	(189,377)	(81,885)
Interest received	21	12,217	2,270
Interest paid		(305,352)	(275,064)
Net cash generated from operating activities		664,211	35,352
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(241,327)	(367,898)
Purchase of intangible assets	4	(27,106)	(16,751)
Proceeds on sale of property, plant and equipment		17,264	1,178
Net cash used in investing activities		(251,169)	(383,471)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,395,116	2,680,305
Repayment of bank loans	16	(1,545,171)	(2,199,423)
Proceeds from short term notes	17	968,488	424,652
Repayments of short term notes	17	(1,041,032)	(76,275)
Lease liability payments	31	(85,129)	-
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash (used in)/ generated from financing activities		(350,437)	786,550
Net increase in cash and cash equivalents		62,605	438,431
Cash and cash equivalents at the beginning of the year		332,264	(114,676)
Effect of exchange rate changes on cash and cash equivalents		(5,626)	8,509
Cash and cash equivalents at the end of the year	28	389,243	332,264

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

ASSETS	Note	2019 KShs'000	2018 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,262,117	1,187,390
Intangible assets	4	45,347	31,213
Prepaid leases on land	5	-	7,434
Investments in subsidiary companies	6	1,136,204	1,789,285
Right to use assets	30	126,377	-
Deferred tax	14	55,790	35,117
		2,625,835	3,050,439
CURRENT ASSETS			
Inventories	7	1,432,278	1,668,841
Trade and other receivables	8	951,350	923,058
Amounts due from related parties	9(i)	110,895	116,928
Current tax recoverable	10	-	21,718
Cash and cash equivalents	28	349,837	279,355
		2,844,360	3,009,900
TOTAL ASSETS		5,470,195	6,060,339
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	355,905	355,905
Reserves	12	1,581,190	1,791,004
		1,937,095	2,146,909
NON CURRENT LIABILITIES			
Lease liability	31	83,002	-
Bank loans	16	330,338	302,512
		413,340	302,512
CURRENT LIABILITIES			
Lease liability	31	41,148	-
Bank overdraft	15	53,550	31,872
Bank loans	16	467,552	598,168
Short term notes	17	1,033,212	1,105,756
Trade and other payables	18	1,446,037	1,572,934
Provisions	29 (b)	15,680	7,915
Tax payable	10	20,220	-
Amounts due to related parties	9(ii)	42,361	294,273
		3,119,760	3,610,918
TOTAL EQUITY AND LIABILITIES		5,470,195	6,060,339

The financial statements were approved by the Board of Directors on 28th June 2020 and signed on its behalf by: -

Rakesh K. Rao
Group Chief Executive Officer

Patrick Mwati
Group Finance Director

COMPANY STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
REVENUE	19	7,930,021	7,837,707
COST OF SALES	20	(4,699,512)	(4,992,505)
GROSS PROFIT		3,230,509	2,845,202
OTHER INCOME	21	190,530	266,838
		3,421,039	3,112,040
EXPENSES: -			
Net allowance for expected credit losses third party	8	(89,029)	23,953
Net allowance for expected credit losses related parties	9	27,663	(264,789)
Administration and establishment	22	(1,498,124)	(1,383,716)
Selling and distribution	23	(902,780)	(849,276)
Finance costs	24	(269,453)	(260,704)
Impairment loss on investment in subsidiaries	6	(653,081)	-
		(3,384,804)	(2,734,532)
PROFIT BEFORE TAX	26	36,235	377,508
TAX EXPENSE	10	(209,127)	(209,748)
PROFIT FOR THE YEAR		(172,892)	167,760
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
TOTAL OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(172,892)	167,760
Basic and diluted earnings per share (KShs)	27	(2.43)	2.36

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2018		355,905	80,174	141,467	2,096,755	2,674,301
Impact of IFRS 9 adoption		-	-	-	(737,752)	(737,752)
Deferred tax on IFRS 9 adoption		-	-	-	79,350	79,350
At 1 January 2018 (restated)		355,905	80,174	141,467	1,438,353	2,015,899
Profit for the year		-	-	-	167,760	167,760
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	167,760	167,760
Transfer of revaluation reserve on disposal		-	-	(1,119)	1,119	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	336	336
Transfer of excess depreciation- 2018		-	-	(18,743)	18,743	-
Deferred tax on excess depreciation	14	-	-	-	5,623	5,623
2017 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2018		55,905	80,174	121,605	1,589,225	2,146,909
At 1 January 2019		355,905	80,174	121,605	1,589,225	2,146,909
Profit for the year		-	-	-	(172,892)	(172,892)
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	(172,892)	(172,892)
Transfer of revaluation reserve on disposal		-	-	(895)	895	-
Deferred tax on revaluation reserve on disposal	14	-	-	-	269	269
Transfer of excess depreciation- 2019		-	-	(18,393)	18,393	-
Deferred tax on excess depreciation	14	-	-	-	5,518	5,518
2018 final dividend paid	13	-	-	-	(42,709)	(42,709)
At 31 December 2019		355,905	80,174	102,317	1,398,699	1,937,095

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

OPERATING ACTIVITIES	Note	2019 KShs'000	2018 KShs'000
Profit before tax		36,235	377,508
Adjustments for:-			
Depreciation on property, plant and equipment	3	133,549	104,842
Amortisation of intangible assets	4	11,444	12,398
Amortisation of prepaid leases on land	5	-	265
Amortisation on right of use asset	30	50,605	-
Unrealised exchange loss		(12,490)	18,836
Unrealised exchange gain		7,503	(20,040)
Interest expense	24	269,453	260,704
Interest income	21	(1,067)	(1,122)
Allowance for bad debts-third parties	8	221,372	132,452
Allowance for bad debts-related parties	9	143,385	308,205
Bad debts written off	23	149	3,908
Impairment loss on investment in subsidiaries	6	653,081	-
Leave accrual write-back	21	(14,062)	(681)
Inventory write-downs	7	33,424	28,519
Reversals of inventory write down	7	(17,501)	(40,744)
Provision for legal cases	29(b)	7,765	7,915
(Gain)/ loss on disposal of property, plant and equipment	21 & 22	(435)	1,370
Operating profit before working capital changes		1,522,410	1,194,335
Increase in trade and other receivables		(249,813)	(102,279)
Decrease/ (increase) in inventories		220,640	(164,432)
Decrease in trade and other payables		(112,835)	(252,721)
Increase in amounts due from related parties		(137,352)	(337,817)
Decrease/ (increase) in amounts due to related parties		(251,912)	137,251
Cash generated from operations		991,138	474,337
Income tax paid	10	(182,076)	(74,795)
Interest received	21	1,067	1,122
Interest paid		(269,455)	(260,704)
Net cash generated from operating activities		540,674	139,960
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(209,171)	(176,649)
Purchase of intangible assets	4	(25,578)	(15,397)
Proceeds from sale of property, plant and equipment		1,330	855
Net cash used in investing activities		(233,419)	(191,191)
FINANCING ACTIVITIES			
Proceeds from bank loans	16	1,388,615	2,384,945
Repayments of bank loans	16	(1,491,405)	(2,191,690)
Proceeds from short term notes	17	968,488	424,652
Repayments of short-term notes	17	(1,041,032)	(76,275)
Lease liability payments		(45,398)	-
Dividends paid on ordinary shares	13	(42,709)	(42,709)
Net cash (used in)/ generated from financing activities		(263,441)	498,923
Net increase in cash and cash equivalents		43,814	447,692
Cash and cash equivalents at the beginning of the year		247,483	(201,413)
Effect of exchange rate changes on cash and cash equivalents		4,990	1,204
Cash and cash equivalents at the end of the year	28	296,287	247,483

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of the relevant amendments are described below. The company applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied prospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group does not have leases that are considered of low value. The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets for all the leases were recognized at an amount equal to the corresponding lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. Lease liability was recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group has not leased any low value assets.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	GROUP 2019 KShs'000	COMPANY 2019 KShs'000
Operating lease commitments as at 31 December 2018 (Note 29)	304,936	168,293
Weighted average incremental borrowing rate as at 1 January 2019	13%	13%
Discounted operating lease commitments as at 1 January 2019	244,288	134,358
Lease liabilities as at 1 January 2019	244,288	134,358

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

The effect of adoption IFRS 16 as at 1 January 2019 is, as follows:

Impact on the statement of financial position:	GROUP 2019 KShs'000	COMPANY 2019 KShs'000
ASSETS		
Right-of-use asset	244,288	134,358
Prepaid rent	7,183	-
	251,471	134,358
LIABILITIES		
Lease liability – current portion	108,210	40,858
Lease liability – long-term portion	136,078	93,500
	244,288	134,358
TOTAL ADJUSTMENT ON EQUITY:		
Retained earnings	-	-

The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. Refer to Note 2 (g) Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group. 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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and tax filings that it is probable that its tax will be accepted by the taxation authorities. The Interpretation did not have impact on the financial statements of the Group.

Standards issued but not yet effective

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

Effective for annual periods beginning on or after 1 January 2020

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

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

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

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
A listing of the subsidiaries in the Group is provided in Note 6.

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency transactions

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

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

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

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

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

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 controls the goods or services before transferring them to the customer.

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

Tolling fees

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

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) Taxation

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

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

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

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

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

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

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

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

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

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

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

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

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

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

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

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

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

f) Property, plant and equipment

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

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

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

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

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

Land is stated at cost less any accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment (continued)

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

Building s	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 applied IFRS 16 'leases' for the first time during the year using modified prospective approach. Consequently, the comparative balances are based on accounting policies before adoption of IFRS 16. The accounting policies applied to the comparative balances and current year balances are indicated below: -

Policy before 01 January 2019

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

Group as a lessee

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

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

Upfront payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

Group as a lessor

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

Policy after 01 January 2019

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leases (continued)

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 impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2 (r) (i), 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.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. No borrowing costs were capitalized during the year ended 31 December 2019 (2018: KShs Nil).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Borrowing costs (continued)

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.

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 (b) Revenue recognition.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

Financial assets at fair value through OCI (debt instruments)

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IFRS 9/IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:
Trade payables and amounts due to related parties
Trade payables and amounts due to related parties are stated at amortised cost using the effective interest method.

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

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

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

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:
- There is a currently enforceable legal right to offset the recognised amounts, and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

k) Fair value of assets and liabilities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Fair value of assets and liabilities (continued)

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to Note 33.

l) Inventories

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

n) Cash and cash equivalents

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

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

o) Provisions

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

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

p) Employee benefits

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

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

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

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

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

q) Dividends payable

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Significant accounting judgements, estimates and assumptions

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

(i) Judgements

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

Allowances for obsolete inventories

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

Impairment of financial instruments

Impairment losses on financial assets-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.

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

Operating Lease Commitments–Group as Lessor (before 01 January 2019)

The Group has entered into commercial property leases on some of its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Refer to Note 29 for disclosure on the lease commitments.

Leases - estimating the incremental borrowing rate (after 01 January 2019)

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.

Going concern
The management makes significant judgement in assessing the subsidiaries' ability to continue as a going concern and the effect on the group. Refer to Note 35 for the disclosure on going concern.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Estimates and assumptions

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

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

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

(iii) Estimates and assumptions

Revaluation of certain classes of property, plant and equipment

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

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

Useful lives of intangible assets

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

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Refer to Notes 3, 4 and 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include 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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) Estimates and assumptions (continued)

Impairment of non-financial assets (continued)

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.

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2019

	Freehold land	Buildings	Plant and machinery	Motor vehicles equipment	Furniture, fittings and	Work in progress*	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation							
At 1 January 2019	32,152	687,716	517,561	219,994	397,070	32,585	1,887,078
Additions	15,600	13,918	51,625	45,505	111,399	3,281	241,328
Transfer from WIP	-	-	-	6,395	-	(6,395)	-
Disposals	-	-	-	(8,544)	-	(12,981)	(21,525)
Exchange differences	-	27	468	(302)	(1,165)	(699)	(1,671)
At 31 December 2019	47,752	701,661	569,654	263,048	507,304	15,791	2,105,210
Accumulated depreciation							
At 1 January 2019	-	27,338	119,745	110,751	127,431	-	385,265
Charge for the year	-	14,581	42,772	53,368	72,341	-	183,062
Eliminated on disposals	-	-		(7,649)	-	-	(7,649)
Exchange differences	-	10	(140)	(278)	(805)	-	(1,213)
At 31 December 2019	-	41,929	162,377	156,192	198,967	-	559,465
Net carrying amount	47,752	659,732	407,277	106,856	308,337	15,791	1,545,745

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

	Buildings	Plant and machinery	Motor vehicles equipment	Furniture, fittings and	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Net carrying amount	506,892	393,692	81,450	334,696	1,316,730

*Capital work-in-progress represents costs incurred on ongoing work in the construction of a warehouse in Crown Paints Tanzania Limited.

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2018

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles equipment KShs'000	Furniture, fittings and KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2018	32,152	673,314	343,701	187,287	287,331	3,088	1,526,873
Additions	-	11,425	176,206	37,542	110,140	32,585	367,898
Transfer from WIP	-	2,977	-	-	-	(2,977)	-
Disposals	-	-	-	(4,092)	-	-	(4,092)
Exchange differences	-	-	(2,346)	(743)	(401)	111)	(3,601)
At 31 December 2018	32,152	687,716	517,561	219,994	397,070	32,585	1,887,078
Accumulated depreciation							
At 1 January 2018	-	13,010	85,790	68,267	78,689	-	245,756
Charge for the year	-	14,322	34,635	44,865	48,846	-	142,668
Eliminated on disposals	-	-	-	(1,867)	-	-	(1,867)
Exchange differences	-	6	(680)	(514)	(104)	-	(1,292)
At 31 December 2018	-	27,338	119,745	110,751	127,431	-	385,265
Net carrying amount	32,152	660,378	397,816	109,243	269,639	32,585	1,501,813

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

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles equipment KShs'000	Furniture, fittings and KShs'000	Total KShs'000
Net carrying amount	504,411	384,232	68,571	295,997	1,253,211

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2019

	Freehold land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At 1 January 2019	32,152	684,740	242,255	164,170	255,886	1,379,203
Additions	15,600	13,918	41,815	29,847	107,991	209,171
Disposals	-	-	-	(2,380)	-	(2,380)
At 31 December 2019	47,752	698,658	284,070	191,637	363,877	1,585,994
Accumulated depreciation						
At 1 January 2019	-	26,594	30,848	68,814	65,557	191,813
Charge for the year	-	13,833	20,527	44,757	54,432	133,549
Eliminated on disposals	-	-	-	(1,485)	-	(1,485)
At 31 December 2019	-	40,427	51,375	112,086	119,989	323,877
Carrying Amount						
At 31 December 2019	47,752	658,231	232,695	79,551	243,888	1,262,117

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

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2018

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2019 (continued)

No borrowing costs were capitalized during the year ended 31 December 2019 (2018: Nil)

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

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

The basis of valuation was: -

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

The methods used to determine the fair value were;

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

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

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

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

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

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

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.

4. INTANGIBLE ASSETS

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Cost				
At 1 January	167,872	151,599	153,146	137,749
Additions	27,106	16,751	25,578	15,397
Exchange difference	52	(478)	-	-
At 31 December	195,030	167,872	178,724	153,146
Amortisation				
At 1 January	130,367	115,676	121,933	109,535
Charge for the year	14,207	14,893	11,444	12,398
Exchange difference	37	(202)	-	-
At 31 December	144,611	130,367	133,377	121,933
Carrying Amount	50,419	37,505	45,347	31,213

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 2019 (2018: Nil)
No intangible assets have been pledged as security (2018: Nil).

5. PREPAID LEASES

	GROUP & COMPANY 2019 KShs'000	GROUP & COMPANY 2018 KShs'000
Cost		
At 1 January and December	13,000	13,000
Reclassified to right of use assets (note 30)	(13,000)	-
Accumulated amortisation	-	13,000
At 1 January	5,566	5,301
Reclassified to right of use assets (note 30)	(5,566)	
Charge for the year	-	265
At 31 December	-	5,566
Carrying Amount	-	7,434

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

i) Mogadishu Road factory - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2019 was 27 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2019 was 27 years.

Net carrying amount relating to prepaid lease on land of KShs 7,434,000 was reclassified to right-of-use assets as this qualified as lease as per IFRS 16. Refer to note 30 for details.

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 %	2019 KShs'000	2018 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.	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.	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				(653,081)	-
				1,136,204	1,789,285

During the year ended 31 December 2019, a provision of KShs 653,081,000 was made, being impairment in subsidiaries.

Impairment loss Subsidiary	Carrying amount KShs'000	Recoverable amount KShs'000	Impairment loss KShs'000
Regal Paints Uganda Limited	745,209	467,044	278,165
Crown Paints Tanzania Limited	773,162	398,246	374,916
Crown Paints Rwanda Limited	173,914	209,704	-
	1,692,85	1,074,994	653,081

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%

6. INVESTMENT IN SUBSIDIARIES (continued)

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 an impairment assessment was carried out by management and as tabulated above the carrying amount of the two subsidiaries was higher than the recoverable 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.

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

An impairment loss was recognised in the statement of profit of loss.

The assumptions used includes the following;

Regal Paints Uganda Limited
Management anticipates a growth of 18% in 2020 and thereafter 12% up to 2024 due to;

- An expected growth of 12% in the construction sector.
- Increase in dealership base which anticipates opening up of new markets.
- The company has ventured in export markets (South Sudan) which is growing.
- Sales of Sadolin brand will improve in coming years which will in turn generate better tolling fee for Regal paints.
- Introduction of Team Kubwa initiative is expected to yield growth in sales.

Crown Paints Tanzania Limited

- Management anticipates a modest growth of 10% in 2020 and thereafter 25% in 2021, 23% in 2022, 23% in 2023 and 20% 2024. In the macro-economics the growth in GDP is anticipated at 7%.
- An expected growth of 13% in the construction sector.
- There was a lot of disruption in 2019 resulting from the movement of depots and closure of factories. This resulted dismantling and reassembling which has resulted in a lot of cost increase and impact on operation. This will lead to better internal controls, better production quality, cost saving in multiple fronts - Staff, factory overheads and stocking requirement and better planning and Supply Chain activity.
- Team Kubwa is going to be implemented in Year 2020. This will boost coming years sales.
- Repairs and maintenance costs will remain same or proportionate increase will happen in Sales price.

Crown Paints Rwanda Limited

- Management anticipates a growth of 20% in 2020 and thereafter 16% in 2021 and 15% from 2022 to 2024. This is on the background of the construction sector growth which grown tremendously in the last three years as the table illustrates.
- The intention to open two new depots to boost our sales.
- A recorded a growth of 78% in 2019 and the initiatives for improvement will be properly implemented.
- Introducing the Team Kubwa initiative after observing the Kenya experience which will help to boost the sales.
- Extra business is expected by reintroducing the Sadolin Brand through import from Uganda.
- Overheads remains to be under control, and we expect a modest increase between 2 to 5% every year.
- It is assumed no escalation in raw material prices. If it happens, then similar increase in sales price is expected.
- Overheads remains to be under control, and we expect a modest increase between 2 to 5% every year.

7. INVENTORIES

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Finished goods and packaging materials	813,909	919,292	621,038	684,469
Raw materials	711,296	816,008	516,925	604,293
Goods in transit	342,551	411,697	335,976	396,516
Work In progress	50,124	56,847	19,852	29,153
	1,917,880	2,203,844	1,493,791	1,714,431
Inventories write-down to NRV	(64,725)	(63,632)	(61,513)	(45,590)
	1,853,155	2,140,212	1,432,278	1,668,841

The amount of inventories write-down reversed during the year was KShs. 23,008,000 (2018: KShs 41,776,000) for the Group and KShs. 17,501,225 (2018: KShs 40,744,000) 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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At the beginning of the year	63,632	65,512	45,590	57,815
Provision for the year (note 23)	36,657	41,600	33,424	28,519
Used in the year – write off	(12,556)	(1,704)	-	-
Reversals of write-down (note 21)	(23,008)	(41,776)	(17,501)	(40,744)
	64,725	63,632	61,513	45,590

8. TRADE AND OTHER RECEIVABLES

Trade receivables	955,521	956,228	809,117	757,751
Other receivables	120,113	147,739	24,472	50,332
Prepayments	148,383	145,626	117,761	114,975
	1,224,017	1,249,593	951,350	923,058

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

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

As at 31 December 2019, the Group's trade receivables with initial value of KShs 886,483,000 (2018: KShs 814,094,000) were fully provided for. The Company's trade receivables with initial value of KShs 593,922,000 (2018: KShs 504,893,000) were fully provided for.

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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At the beginning of the year	814,093	346,502	504,893	264,345
Adjustment on initial application of IFRS 9	-	474,625	-	264,501
Restated balance	814,093	821,127	504,893	528,846
Charge for the year	259,778	177,779	221,372	132,452
Used during the year (write-off)	(1,978)	(16,751)	-	-
Recoveries during the year	(185,410)	(168,061)	(132,343)	(156,405)
	886,483	814,094	593,922	504,893
Net movement				
Charge for the year	259,778	177,779	221,372	132,452
Recoveries during the year	(185,410)	(168,061)	(132,343)	(156,405)
	74,368	9,718	89,029	(23,953)
Ageing analysis of trade receivables:				
Less than 60 days (neither past due nor impaired)	983,068	950,702	852,968	814,638
61 days to 90 days	128,184	131,081	93,985	74,066
Over 90 days	730,752	688,539	456,086	373,940
	1,842,004	1,770,322	1,403,039	1,262,644
Allowance for ECLs/impairment	(886,483)	(814,094)	(593,922)	(504,893)
Net	955,521	956,228	809,117	757,751

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:

	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Less than 60 days (neither past due nor impaired)	63,786	54,483	3,210	22,641
61 days to 90 days	1,936	2,514	823	1,662
Over 90 days	54,391	90,742	20,439	26,029
	120,113	147,739	24,472	50,332
Impaired	-	-	-	-
Net	120,113	147,739	24,472	50,332

The decrease in Group other receivables is mainly due to repayment of staff loans during the year.

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

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

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Receivables from related companies:				
Crown Paints and Building Products Limited	386,363	540,123	386,363	540,123
Regal Paints Uganda Limited	-	-	123,222	137,089
Crown Paints Allied Industries Limited	-	-	2,719	2,228
Crown Paints Rwanda Limited	-	-	37,335	14,570
Crown Paints Tanzania Limited	-	-	271,633	160,958
	386,363	540,123	821,272	854,968
Provision for bad debts	(298,686)	(444,180)	(710,377)	(738,040)
	87,677	95,943	110,895	116,928

As at 31 December 2019, the Group's related party receivables with initial value of KShs 298,686,000 (2018: KShs 444,180,000) were fully provided for. The Company's related party receivables with initial value of KShs 710,377,000 (2018: KShs 738,040,000) 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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At the beginning of the year	444,180	-	738,040	-
Adjustment on initial application of IFRS 9	-	473,251	-	473,251
Restated balance	444,180	473,251	738,040	473,251
Provision for expected credit losses	13,262	14,345	143,385	308,205
Recoveries during the year	(158,756)	(43,416)	(171,048)	(43,416)
	298,686	444,180	710,377	738,040
Expected credit losses net movement				
Provision for expected credit losses	13,262	14,345	143,385	308,205
Recoveries during the year	(158,756)	(43,416)	(171,048)	(43,416)
	(145,494)	(29,071)	(27,663)	264,789

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

		GROUP		COMPANY	
	Ageing analysis	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
	Less than 60 days (neither past due nor impaired)57,841	77,916	98,978	197,982	
	61 days to 90 days	-	3,891	6,608	23,220
	Over 90 days	328,522	458,316	715,686	633,766
		386,363	540,123	821,272	854,968
	Impaired	(298,686)	(444,180)	(710,377)	(738,040)
	Neither past due nor impaired	87,677	95,943	110,895	116,928
(ii)	Payables to related companies:				
	Crown Paints Allied Industries Limited	-	-	2,852	3,541
	Daxian Limited	1,018	223,137	1,018	223,137
	Crown Paints and Building Products Limited	15,480	20,091	-	-
	Regal Paints Uganda Limited	-	-	-	37,526
	Crown Paints Tanzania Limited	-	-	23,011	12,005
		16,498	243,228	42,361	294,273
(iii)	Sale of goods and services rendered:				
	Crown Paints Allied Industries Limited	-	-	4,261	2,483
	Crown Paints Rwanda Limited	-	-	74,499	71,028
	Regal Paints Uganda Limited	-	-	163,255	608,770
	Crown Paints Tanzania Limited	-	-	96,008	211,379
	Purchase of goods:				
	Crown Paints Allied Industries Limited	-	-	36,743	36,193
	Regal Paints Uganda Limited	-	-	26,037	47,023
	Crown Paints Tanzania Limited	149	587	11,894	12,403
	Crown Paints Rwanda Limited	-	6,400	3,242	4,377
	Services rendered:				
	Crown Paints and Building Products Limited	98,970	5,700	98,970	5,700
	Daxian Limited	101,336	102,248	101,336	102,248

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

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
(iv) Key management personnel compensation				
Short term employee benefits	258,068	218,994	258,068	218,994
Defined contribution plan	4,702	5,124	4,702	5,124
	262,770	224,118	262,770	224,118
(v) Directors' remuneration				
Fees for services as directors	8,183	7,667	8,183	7,667
Other emoluments (included in key management personnel compensation above)	146,016	132,300	146,016	132,300
	154,199	139,967	154,199	139,967
Loans to related parties				
Key management	-	-	-	-
Crown Paints and Building Products Limited	65,025	65,152	65,025	65,152
Movement in loans to Crown Paints and Building Products Limited:				
At beginning of the year	65,152	53,418	65,152	53,418
Loans issued during the year	320,029	690,213	320,029	690,213
Repayments made during the year	(320,156)	(678,479)	(320,156)	(678,479)
As at 31 December	65,025	65,152	65,025	65,152
(vi) Short term note due to related parties				
Directors	305,039	164,085	305,039	164,085

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

Terms and conditions of transactions with related parties

Amounts due from and due to related parties are non-interest bearing and current. The loans to key management and directors are issued to purchase motor vehicles at an interest rate of 8% for a period not exceeding 36 months. The loans are secured against the log books. The other amounts due to or from related parties are not secured.

10. TAXATION

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(43,744)	(122,288)	(21,718)	(104,978)
Charge for the year	225,625	160,429	224,014	158,055
Paid during the year	(189,377)	(81,885)	(182,076)	(74,795)
Current tax recoverable	(7,496)	(43,744)	20,220	(21,718)
The amount has been presented in the statement of financial position as follows;				
Current tax payable	20,220	196	20,220	-
Current tax recoverable	(27,716)	(43,940)	-	(21,718)
Net amount	(7,496)	(43,744)	20,220	(21,718)
PROFIT OR LOSS				
Current tax at 30 % on the taxable profit for the year	225,625	160,429	224,014	158,055
Deferred tax expense/(credit) (note 14)	(14,887)	51,693	(14,887)	51,693
	210,738	212,122	209,127	209,748
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	527,974	395,935	36,235	377,508
Tax at applicable rate of 30%	158,392	118,781	10,870	113,252
Reversal of provision for amount owing from subsidiaries	(35,349)	(88,158)	-	-
Tax effect on items not eligible for tax purposes	2,333	96,496	198,257	96,496
Minimum tax liability- Tanzania	1,611	2,374	-	-
Unrecognised deferred tax assets on tax losses in subsidiaries	83,751	82,629	-	-
	210,738	212,122	209,127	209,748

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

	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Depreciation	5751	6,011	5751	6,011
Amortization on leasehold land	80	80	80	80
Staff benevolent costs	329	404	329	404
Directors' expenses	-	1,392	-	1,392
Bad debts written off	36	1,165	36	1,165
Donations	116	124	116	124
Sponsorship	2,112	934	2,112	934
Fines & penalties	154	182	154	182
School fees	1,939	2,640	1,939	2,640
Corporate social responsibility	156	50	156	50
Pension scheme administration costs	1,116	792	1,116	792
Company staff program	366	266	366	266
Excess pension contribution	3,021	3,019	3,021	3,019
Provision for amount owing from subsidiaries	(8,299)	79,437	(8,299)	79,437
Rebates	(5,105)	-	(5,105)	-
Electricity rebate	(2,154)	-	(2,154)	-
Valuation fees	114	-	114	-
Trademark registration expenses	2,435	-	2,435	-
Income not subject to taxation	(206)	-	(206)	-
Reversal of revaluation	269	-	269	-
Club membership subscriptions	103	-	103	-
Impairment loss on investment in subsidiaries	-	-	195,924	-
	2,333	96,496	198,257	96,496

11. SHARE CAPITAL

	GROUP & COMPANY 2019 KShs'000	GROUP & COMPANY 2018 KShs'000
Authorised:		
71,181,000 (2018: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905
Issued and fully paid:		
71,181,000 (2018: 71,181,000) ordinary shares of KShs. 5 each	355,905	355,905

12. RESERVES

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	61,591	81,229	102,317	121,605
Foreign currency translation reserve	86,811	86,675	-	-
Retained earnings	722,829	422,877	1,398,699	1,589,225
	951,405	670,955	1,581,190	1,791,004

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

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

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

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

13. DIVIDENDS

	GROUP & COMPANY 2019 KShs'000	GROUP & COMPANY 2018 KShs'000
Dividend paid		
Final dividend for 2019 KShs Nil (2018 Kshs 0.60)	42,709	42,709
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary share KShs Nil (2018 Kshs 0.60)	42,709	42,709

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

14. DEFERRED TAX ASSET

Movements in deferred tax during the year were as follows:

Year ended 31 December 2019	Balance at 1 January KShs'000	Profit or loss KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Accelerated capital allowances	99,133	12,879	-	112,012
Unrealised exchange loss	(5,651)	5,651	-	-
Unrealised exchange gain	6,012	(4,516)	-	1,496
Revaluation reserve	43,015	-	(5,786)	37,229
Allowance for doubtful debts – third parties	(151,466)	(26,709)	-	(178,175)
Provisions for staff leave	(10,109)	4,915	-	(5,194)
Provisions for contingent liability	(2,375)	(2,330)	-	(4,705)
Provision for obsolete inventories	(13,676)	(4,777)	-	(18,453)
	(35,117)	(14,887)	(5,786)	(55,790)
Year ended 31 December 2018				
Accelerated capital allowances	76,166	22,967	-	99,133
Unrealised exchange loss	(1,025)	(4,626)	-	(5,651)
Unrealised exchange gain	522	5,490	-	6,012
Revaluation reserve	48,974	-	(5,959)	43,015
Allowance for doubtful debts – third parties	(79,302)	7,186	(79,350)	(151,466)
Provisions for staff leave	(11,705)	1,596	-	(10,109)
Provisions for legal cases	-	(2,375)	-	(2,375)
Provision for bonus accrual	(11,571)	11,571	-	-
Provision for rebates	(6,216)	6,216	-	-
Provision for obsolete inventories	(17,344)	3,668	-	(13,676)
	(1,501)	51,693	(85,309)	(35,117)

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting KShs 327,017,000 (2018: KShs 282,970,000) because it is not expected that the companies will have taxable profits in the near future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to KShs 1,090,053,000 (2018: KShs 943,234,000) and can be carried forward for a maximum period of 10 years and 5 years in accordance with Kenyan and Rwandan tax laws, respectively, and indefinitely for Tanzania and Uganda. The other temporary differences relating to the subsidiaries for which no deferred tax has been recognized amount to KShs 72,494,234 (2018: KShs 71,945,066).

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

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

a) 2014 tax loss amounting to KShs. 9,865,593 expires on 31 December 2019
b) 2017 tax loss amounting to KShs. 24,066,028 expires on 31 December 2022
c) 2018 tax loss amounting to KShs. 23,289,326 expires on 31 December 2023

15. BANK OVERDRAFT

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Bank overdraft	53,550	31,872	53,550	31,872

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

The weighted average interest rate on the overdraft at year-end was 13% (2018: 13%), letters of guarantee- 9.25%. The bank overdrafts are reviewed annually and are payable on demand.

16. BANK LOANS

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Long term loans:				
KCB Loan-Kenya	367,823	325,319	367,823	325,319
KCB Loan – Uganda	7,526	15,825	-	-
I&M Loan – Uganda	80,688	80,288	-	-
I&M Loan – Tanzania	36,164	36,505	-	-
NIC Bank Tanzania Limited	1,272	-	-	-
Alliance Finance Corporation Limited	4,787	-	-	-
Akzo Nobel Loan – Tanzania	133,455	136,380	-	-
Akzo Nobel Loan – Rwanda	-	41,616	-	-
	631,715	635,933	367,823	325,319
Short term borrowings:				
CBA IPF facility	111,927	209,717	111,927	209,717
KCB IPF facility	318,140	365,644	318,140	365,644
	430,067	575,361	430,067	575,361
Total bank loans	1,061,782	1,211,294	797,890	900,680
Due within 1 year	623,000	606,534	467,552	598,168
Due after 1 year	438,782	604,760	330,338	302,512
Movements during the year:				
At 1 January	1,211,294	731,275	900,680	707,425
Additional loan received	1,395,116	2,680,305	1,388,615	2,384,945
Loan repayments	(1,545,171)	(2,199,423)	(1,491,405)	(2,191690)
Foreign exchange difference	543	(863)	-	-
At 31 December	1,061,782	1,211,294	797,890	900,680

16. BANK LOANS (continued)

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

The weighted average interest rate on the loans at year-end was 13% (2018: 13%). The amount due in 1 year also includes the current portion of the long term loans due within 12 months amounting KShs 330.3 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 102 months and 48 months consecutive monthly instalments inclusive of interest and other charges.

The long term loan from Kenya Commercial Bank Limited Uganda is an asset based financing for the purchase of machinery. The interest on the term loan is central bank rate plus 4% and the facility shall be repaid in 24 months consecutive monthly instalments inclusive of interest and other charges.

The loan from I&M Bank Limited (Uganda) is a letter of credit cum term loan for the purchase of machinery required in the ordinary course of business. The interest on the term loan is three months USD LIBOR rate plus 6.66611% and the facility shall be repaid in 48 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 12 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of amount of USD 3,099,000 over all the assets of Regal Paints Uganda Limited and corporate guarantee and indemnity of Crown Paints Kenya Plc for USD 3,099,000.

The loan from I&M Bank Tanzania Limited is an import and asset based financing for the purchase of machinery. The interest on the term loan is three months USD LIBOR rate plus 6.66611% and the facility shall be repaid in 48 months consecutive monthly instalments inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of amount of USD 2,564,787 over all the assets of Crown Paints Tanzania Limited and corporate guarantee of Crown Paints Kenya Plc for USD 2,564,787.

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

17. SHORT TERM NOTES

	GROUP & COMPANY	
	2019 KShs'000	2018 KShs'000
Amounts falling due within one year	1,033,212	1,105,756
Movement in the year:		
At 1 January	1,105,756	757,379
Additional loan received	968,488	424,652
Accrued interest	-	-
Loan repayments	(1,041,032)	(76,275)
At 31 December	1,033,212	1,105,756

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

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Amounts falling due within one year				
Trade payables	1,505,803	1,575,435	1,245,232	1,350,867
Other payables	132,765	123,276	102,339	100,787
Accruals	140,919	149,861	98,466	121,280
	1,779,487	1,848,572	1,446,037	1,572,934

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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Following revenue arose from sale of goods:				
Decorative paints	6,930,054	6,688,056	6,584,590	6,500,888
Industrial paints	1,059,951	1,008,434	949,587	917,367
Automotive paints	369,202	410,187	180,158	236,728
Adhesives	244,445	209,233	215,686	182,724
	8,603,652	8,315,910	7,930,021	7,837,707

20. COST OF SALES

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Raw materials	4,713,734	4,799,222	4,313,461	4,602,915
Salaries and wages	257,958	260,783	224,180	218,580
Depreciation on plant and machinery	56,471	41,737	34,360	30,001
Machinery repairs and maintenance	41,129	50,757	37,201	46,875
Fuel, water and electricity	27,951	40,236	18,482	19,838
Safety & environmental costs	41,201	40,881	40,244	40,562
Technical consultancy	25,534	23,691	25,534	23,691
Amortization on right of use asset	2,103	-	-	-
Transport costs	3,566	6,087	3,276	5,927
Factory rent	7,479	8,869	-	-
Others	8,550	12,361	2,774	4,116
	5,185,676	5,284,624	4,699,512	4,992,505

21. OTHER INCOME

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Gain on disposal of property and equipment	3,388	349	435	-
Interest income	12,217	2,270	1,067	1,122
Miscellaneous income	130,342	132,053	98,751	128,147
Operating lease revenue	13,501	8,220	12,336	7,066
Decrease in provision for leave	14,068	790	14,062	681
Reversal of inventory write down (note 7)	23,008	41,776	17,501	40,744
Foreign exchange gain	70,879	115,929	39,476	53,563
Surcharge sales	6,904	35,514	6,902	35,515
Tolling fees	26,425	107,001	-	-
	300,732	443,902	190,530	266,838

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 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Staff costs (Note 25)	1,096,615	1,059,621	910,188	842,215
Depreciation on property and equipment	126,591	100,931	99,189	74,841
Auditors' remuneration	12,023	11,087	7,169	6,700
Directors' emoluments:				
As directors	8,183	7,667	8,183	7,667
As executives	141,314	127,660	141,314	127,660
Legal and professional fees	51,423	42,660	46,236	39,612
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	14,207	14,893	11,444	12,398
Insurance	56,067	47,348	44,625	39,776
Loss on disposal of property and equipment	-	1,370	-	1,370
Foreign exchange loss	76,174	91,314	39,907	39,025
Office expenses	49,174	62,206	41,983	45,561
Consultancy fees	44,758	33,997	24,623	20,768
Computer costs	53,525	53,563	47,476	48,801
Travel	31,546	15,509	10,409	1,668
Maintenance, subscriptions and donations	20,151	23,290	16,096	16,864
Bank charges	37,513	34,892	33,957	28,186
Others	21,400	35,772	15,060	30,339
	1,840,929	1,764,045	1,498,124	1,383,716

23. SELLING AND DISTRIBUTION EXPENSES

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Transport	297,139	305,867	228,322	210,278
Advertising and promotion	498,954	459,173	449,676	415,871
Inventory write-downs (note 7)	36,657	41,600	33,424	28,519
Bad debts written off during the year	6,649	5,903	149	3,908
Depot expenses	167,499	237,201	129,741	181,120
Amortization on right of use asset	96,667	-	50,340	-
Others	12,012	9,753	11,128	9,580
	1,115,577	1,059,497	902,780	849,276

24. FINANCE COSTS

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Interest on loans and overdraft	140,748	149,442	112,935	135,082
Interest on lease liability	23,775	-	15,687	
Interest on short term notes	140,831	125,622	140,831	125,622
	305,354	275,064	269,453	260,704

25. STAFF COSTS

	GROUP 2019 KShs'000	GROUP 2018 KShs'000	COMPANY 2019 KShs'000	COMPANY 2018 KShs'000
Salaries and wages	882,028	853,107	741,666	677,466
Defined contribution plan	13,650	11,848	3,721	2,639
Medical benefits	13,368	8,456	7,496	2,736
Insurance	82,310	78,675	74,672	73,798
Staff general costs	75,289	77,020	60,796	63,958
Training and development	29,970	30,515	21,837	21,618
Staff costs (Note 22)	1,096,615	1,059,621	910,188	842,215
Salaries and wages (Note 20)	257,958	260,783	224,180	218,580
Total staff costs	1,354,573	1,320,404	1,134,368	1,060,795

26. PROFIT BEFORE TAX

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
The profit before tax is stated after charging: -				
Depreciation of property, plant & equipment (Note 3)	183,062	142,668	133,549	104,842
Amortisation of prepaid leases on land (Note 5)	265	265	265	265
Amortisation of intangible assets (Note 4)	14,207	14,893	11,444	12,398
Directors' emoluments:				
As directors (Note 22)	8,183	7,667	8,183	7,667
As executives (Note 22)	141,314	127,660	141,314	127,660
Auditors' remuneration (Note 22)	12,023	11,087	7,169	6,700
Loss on disposal of property, plant and equipment (Note 22)	-	1,370	-	1,370
Finance costs (Note 24)	305,354	275,064	269,453	260,704
Foreign exchange loss (Note 22)	76,174	91,314	39,907	39,025
And after crediting: -				
Interest income (Note 21)	12,217	2,270	1,067	1,122
Operating lease income (Note 21)	13,501	8,220	12,336	7,066
Gain on disposal of property, plant and equipment (Note 21)	3,388	349	435	-
Foreign exchange gain (Note 21)	70,879	115,929	39,476	53,563

27. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Net profit attributable to ordinary shareholders (KShs'000)	317,236	183,813	(172,892)	167,760
Weighted average number of ordinary shares in '000'	71,181	71,181	71,181	71,181

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

There were no dilutive potential shares as at 31 December 2019 and as at 31 December 2018.

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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cash and cash equivalents	442,793	364,136	349,837	279,355
Bank overdraft (Note 15)	(53,550)	(31,872)	(53,550)	(31,872)
	389,243	332,264	296,287	247,483

29. COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

(i) As lessee:

	GROUP 2018 KShs'000	COMPANY 2018 KShs'000
Maturing within one year	105,255	57,547
Maturing over one year to five years	199,681	110,746
Total operating lease commitments	304,936	168,293

All the commitments relate to future rent payable for the depots, showrooms, godowns and residential apartments based on the existing contracts and projected renewals. The lease agreements are between the Group and the landlords and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

(ii) As lessor:
The Group has entered into commercial property leases on its surplus office and manufacturing building and certain items of machinery. These non-cancellable leases have remaining term of 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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Within 1 year	11,724	11,601	11,724	11,601
Within 5 years	25,890	53,154	25,890	53,154
	37,614	64,755	37,614	64,755

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. The estimated liability on pending legal cases with medium probability of incurring is KShs 31.4 million out of which KShs 15.9 million has been provided for (2018: 7.9 million).

	GROUP & COMPANY	
	2019 KShs'000	2018 KShs'000
At 1 January	7,915	-
Provision during the year	7,765	7,915
At 31 December	15,680	7,915

c) The Group's capital commitments as at year end were nil (2018: Nil).

29. COMMITMENTS AND CONTINGENT LIABILITIES

d) Bank facilities

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Letters of credit	1,610	11,185	1,610	11,185
Avalised bills	20,501	66,388	20,501	66,388
Documentary collections	132,547	128,646	132,547	128,646
Guarantees given by bankers	1,340	2,733	1,340	2,733
	155,998	208,952	155,998	208,952

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

30. RIGHT OF USE ASSETS

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cost				
At 1 January	244,288	-	134,358	-
Prepaid rent	7,183	-	-	-
Reclassified prepaid lease on land	13,000		13,000	
Additions	74,363	-	35,190	-
Exchange difference	(250)	-	-	-
At 31 December	338,584	-	182,548	-
Amortisation				
At 1 January	-	-	-	-
Reclassified from prepaid lease on land	5,566	-	5,566	-
Charge for the year	99,035	-	50,605	-
Exchange difference	(246)	-	-	-
At 31 December	104,355	-	56,171	-
Carrying Amount	234,229	-	126,377	-
Amounts recognized in profit and loss				
Amortization expense on right-of-use assets (note 20 & 23)	99,035	-	50,605	-
Interest expense (note 24)	23,775	-	15,687	-

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

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 not 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 (2018: Nil).

The total cash outflow for leases amount to KShs 108.8 million (2018: KShs 137.5 million inclusive of service charge which has been expensed in current year) Group, Company KShs 61 million in 2019 (2018: 90 million inclusive of service charge which has been expensed in current year).

31. LEASE LIABILITY

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At 1 January	244,288	-	134,358	-
Additions	74,363	-	35,190	-
Interest charge (note 24)	23,775	-	15,687	-
Exchange difference	154	-	-	-
Payments during the year	(108,778)	-	(61,085)	-
At 31 December	233,802	-	124,150	-
Non-current	137,251	-	83,002	-
Current	96,551	-	41,148	-
Total	233,802	-	124,150	-

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Financial assets measured at amortised cost				
Cash and cash equivalents	442,793	364,136	349,837	279,355
Trade and other receivables	1,032,084	1,011,602	833,589	788,199
Amounts due from related companies	87,677	95,943	110,895	116,928
	1,562,554	1,471,681	1,294,321	1,184,482
Financial liabilities measured at amortised cost				
Bank overdraft	53,550	31,872	53,550	31,872
Bank loans	1,061,781	1,211,294	797,890	900,680
Short term notes	1,033,212	1,105,756	1,033,212	1,105,756
Amounts due to related companies	16,498	243,228	42,361	294,293
Trade and other payables	1,674,328	1,743,589	1,369,313	1,493,478
	3,839,369	4,335,739	3,296,326	3,826,079

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's loans, bank overdraft and short term notes. The group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's exposure to the risks associated with changes in interest rates on bank overdraft is minimal as its borrowings are pegged to central bank rate plus 4% and the central bank rate does not vary materially. Interest on the Company's loans denominated in Kenya shillings is charged at central bank rate plus 4% prevailing from time to time, while those denominated in USD interest is charged at the bank's base USD rate+0.4%). Currently, the CBA and KCB KShs base lending rates are 13%. CBA USD base lending rate is 9.25% and KCB 9.875%. The interest on the short-term note is at 91 day treasury bills interest rate plus 1.5%.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2019	Increase by 2%	33,124	23,187	30,015	21,011
	Decrease by 2%	(33,124)	(23,187)	(30,015)	(21,011)
2018	Increase by 2%	34,246	23,972	34,078	23,855
	Decrease by 2%	(34,246)	(23,972)	(34,078)	(23,855)

Credit risk

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

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

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

GROUP As at 31 December 2019	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Over 90 days KShs'000	Total KShs'000
Trade receivables	816,449	69,219	69,853	955,521
Other receivables	63,786	1,936	54,391	120,113
Amount due from related companies	57,841	-	29,836	87,677
Bank balances and cash	441,553	-	-	441,553
	1,379,629	71,155	154,080	1,604,864

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

GROUP (continued)

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

COMPANY

As at 31 December 2019	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 days KShs'000	Total KShs'000
Trade receivables	708,682	51,042	49,393	809,117
Other receivables	3,210	823	20,439	24,472
Amount due from related companies	67,557	396	42,942	110,895
Bank balances and cash	349,218	-	-	349,218
	1,128,667	52,261	112,774	1,293,702

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

As at 31 December 2018	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 days KShs'000	Total KShs'000
Trade receivables	782,698	70,784	102,746	956,228
Other receivables	54,483	2,514	90,742	147,739
Amount due from related companies	68,210	233	27,500	95,943
Bank balances and cash	363,129	-	-	363,129
	1,268,520	73,531	220,988	1,563,039

As at 31 December 2018	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	13%	29%	46%	72%	94%	
Estimated total gross carrying amount at default- third party	673,131	277,569	131,081	75,341	613,200	1,770,322
Expected credit loss	87,507	80,495	60,297	54,246	531,549	814,094
	585,624	197,074	70,784	21,095	81,651	956,228

As at 31 December 2018	< 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 (%)	-	23%	94%	94%	94%	
Estimated total gross carrying amount at default- related parties	35,815	42,101	3,891	9,305	449,011	540,123
Expected credit loss	-	9,706	3,658	8,747	422,069	444,180
	35,815	32,395	233	558	26,942	95,943

COMPANY:

As at 31 December 2018	Neither past due nor impaired Less than 60 days KShs'000	Past due but not impaired 61-90 days KShs'000	Past due but not impaired Over 90 days KShs'000	Total KShs'000
Trade receivables	674,923	39,996	42,832	757,751
Other receivables	22,641	1,662	26,029	50,332
Amount due from related parties	77,509	1,393	38,026	116,928
Bank balances and cash	278,795	-	-	278,795
	1,053,868	43,051	106,887	1,203,806

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

COMPANY (continued):

As at 31 December 2018	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	13%	29%	46%	72%	90%	
Estimated total gross carrying amount at default- third party	603,310	211,328	74,066	33,304	340,636	1,262,644
Expected credit loss	78,430	61,285	34,070	23,979	307,129	504,893
	524,880	150,043	39,996	9,325	33,507	757,751

As at 31 December 2018	< 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 (%)	45%	94%	94%	94%	94%	
Estimated total gross carrying amount at default- related parties	135,099	62,882	23,220	45,353	588,414	854,968
Expected credit loss	61,363	59,109	21,827	42,632	553,109	738,040
	73,736	3,773	1,393	2,721	35,305	116,928

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

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	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Assets in foreign currencies				
Trade and other receivables	8,796	3,841	8,796	1,999
Cash and bank balances	41,463	18,147	33,665	8,871
Foreign currency assets	50,259	21,988	42,461	10,870
Liabilities in foreign currencies				
Bank overdrafts	(13,509)	(31,872)	(13,509)	(31,872)
Payables	(813,197)	(884,690)	(676,779)	(789,426)
Bank loans	(680,372)	(870,150)	(430,067)	(575,361)
Foreign currency liabilities	(1,507,078)	(1,786,712)	(1,120,355)	(1,396,659)
Net foreign currency liability position	(1,456,819)	(1,764,724)	(1,077,894)	(1,385,789)

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).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

USD		GROUP Effect on profit before tax	GROUP Effect on equity	COMPANY Effect on profit before tax	COMPANY Effect on equity
2019	Increase in US$ by 4%	(58,273)	(40,791)	(43,116)	(30,181)
	Decrease in US$ by 4%	58,273	40,791	43,116	30,181
2018	Increase in US$ by 4%	(70,589)	(49,412)	(55,432)	(38,802)
	Decrease in US$ by 4%	70,589	49,412	55,432	38,802

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

At 31 December 2019	<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	(53,550)	-	-	-	-		(53,550)
Lease liability	(12,262)	(12,004)	(11,735)	(11,454)	(67,477)	(159,273)	(274,205)
Bank loans	(85,681)	(146,777)	(180,586)	(118,228)	(168,307)	(620,444)	(1,320,023)
Short term notes	(680,373)	(237,441)	(78,834)	-	(36,564)	-	(1,033,212)
Trade payables	(897,535)	(276,950)	(145,176)	(88,956)	(97,187)	-	(1,505,804)
Other payables	(21,622)	-	(466)	(2,087)	(23,861)	-	(48,036)
Accruals	(120,489)	-	-	-	-	-	(120,489)
Amounts due to related companies	(14,282)	(2,163)	-	-	(53)	-	(16,498)
Total financial liabilities	(1,885,794)	(675,335)	(416,797)	(220,725)	(393,449)	(779,717)	(4,371,817)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

GROUP

At 31 December 2018	<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	(31,872)	-	-	-	-		(31,872)
Bank loan	(84,977)	(146,075)	(189,510)	(80,994)	(104,979)	(684,055)	(1,290,590)
Short term notes	(88,910)	(411,390)	(284,069)	(199,058)	(122,329)	-	(1,105,756)
Trade payables	(742,034)	(177,640)	(211,170)	(145,688)	(298,903)	-	(1,575,435)
Other payables	(13,365)	(1,723)	(3,152)	(4,171)	(30,773)	-	(53,184)
Accruals	(114,971)	-	-	-	-	-	(114,971)
Amounts due to related companies	(105,672)	(6,121)	(76,899)	(8,288)	(46,248)	-	(243,228)
Total financial liabilities	(1,181,801)	(742,949)	(764,800)	(438,199)	(603,232)	(684,055)	(4,415,036)

Company

At 31 December 2019	<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	(53,550)	-	-	-	-	-	(53,550)
Bank loans	(68,532)	(117,794)	(142,929)	(70,686)	(112,706)	(497,440)	(1,010,087)
Short term notes	(680,373)	(237,441)	(78,834)	-	(36,564)	-	(1,033,212)
Trade payables	(826,935)	(220,473)	(107,986)	(73,724)	(16,114)	-	(1,245,232)
Other payables	(16,518)	-	(466)	(2,087)	(23,861)	-	(42,932)
Accruals	(81,150)	-	-	-	-	-	(81,150)
Lease liabilities	(6,802)	(6,596)	(6,380)	(6,155)	(29,920)	(100,620)	(156,473)
Amounts due to related companies	(38,819)	(3,489)	-	-	(53)	-	(42,361)
Total financial liabilities	(1,772,679)	(585,793)	(336,595)	(152,652)	(219,248)	(598,060)	(3,664,997)

Company

At 31 December 2018	<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	(31,872)	-	-	-	-	-	(31,872)
Bank loan	(84,346)	(145,434)	(188,834)	(80,338)	(99,216)	(341,839)	(940,007)
Short term notes	(88,910)	(411,390)	(284,069)	(199,057)	(122,330)	-	(1,105,756)
Trade payables	(679,970)	(138,566)	(188,010)	(140,519)	(203,802)	-	(1,350,867)
Other payables	(7,298)	(1,723)	(3,152)	(4,171)	(30,773)	-	(47,117)
Accruals	(95,494)	-	-	-	-	-	(95,494)
Amounts due to related companies	(127,884)	(7,404)	(93,018)	(10,025)	(55,942)	-	(294,273)
Total financial liabilities	(1,115,774)	(704,517)	(757,083)	(443,110)	(512,063)	(341,839)	(3,865,386)

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

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

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

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

33. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

b) Fair value hierarchy

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Fair value hierarchy (continued)

GROUP	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2019				
Property, plant and equipment	-	-	1,229,965	1,229,965
LIABILITY				
Bank loans	-	(452,699)	-	(452,699)
31 December 2018				
Property, plant and equipment	-	-	1,155,238	1,155,238
LIABILITY				
Bank loans	-	(598,229)	-	(598,229)

COMPANY	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2019				
COMPANY				
Assets				
Property, plant and equipment	-	-	1,229,965	1,229,965
LIABILITY				
Bank loans	-	(344,256)	-	(344,256)
31 December 2018				
Assets				
Property, plant and equipment	-	-	1,155,238	1,155,238
LIABILITY				
Bank loans	-	(297,703)	-	(297,703)

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

Reconciliation of level 3 assets

	2019 KShs 000	2018 KShs 000
At 1 January	1,155,238	1,085,656
Additions	209,171	176,649
Transfer from WIP	-	-
Disposals	(895)	(2,225)
Depreciation charge	(133,549)	(104,842)
At 31 December	1,229,965	1,155,238

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Fair value hierarchy (continued)

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

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

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

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

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

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

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

34. OPERATING SEGMENT INFORMATION

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

Operating Segments

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

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

The adhesives segment manufactures and sells adhesives.

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

34. OPERATING SEGMENT INFORMATION

Operating Segments (continued)

Segment information is as presented below.

31 December 2019 Assets and Liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	5,944,195	51,510	(474,164)	5,521,541
Investment in subsidiary	1,136,204	-	(1,136,204)	-
Total assets	7,080,398	51,510	(1,610,367)	5,521,541
Segment liabilities	4,652,714	23,390	(461,873)	4,214,231

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	268,434	-	-	268,434
Depreciation and amortisation	296,154	150	-	296,304
Revenue				
Sales to external customers	8,359,207	244,445	-	8,603,652
Inter segment sales	383,760	36,892	(420,652)	-
Interest income	12,217	-	-	12,217
Other income	274,246	14,269	-	288,515
Interest expense	303,554	1,800	-	305,354
Impairment loss on investment in subsidiaries	(653,081)		653,081	-
Results				
Operating results	532,200	8,065	(12,291)	527,974
Income tax expense	(210,738)	-	-	(210,738)
Profit for the year	321,461	8,065	(12,291)	317,236

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

34. OPERATING SEGMENT INFORMATION

Operating Segments (continued)

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	384,391	258	-	384,649
Depreciation and amortisation	157,668	158	-	157,826
Revenue				
Sales to external customers	8,106,678	209,232	-	8,315,910
Inter segment sales	627,198	36,780	(663,978)	-
Interest income	2,270	-	-	2,270
Other income	437,803	3,829	-	441,632
Interest expense	275,064	-	-	275,064
Results				
Operating results	401,073	(5,138)	-	395,935
Income tax expense	(212,122)	-	-	(212,122)
Profit for the year	188,951	(5,138)	-	183,813

Revenue from external customers	2019 KShs '000	2018 KShs '000
Kenya	7,604,645	7,289,243
Uganda	438,665	379,584
Tanzania	386,244	516,936
Mozambique	-	5,274
Rwanda	174,098	124,873
Total revenue	8,603,652	8,315,910

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	2019 KShs '000	2018 KShs '000
Kenya	1,445,697	1,227,383
Uganda	235,006	195,826
Tanzania	122,873	109,310
Rwanda	26,817	14,231
	1,546,750	1,546,750

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

35. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES

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

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

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

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

36. CAPITAL RISK MANAGEMENT

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

	2019 KShs'000	2018 KShs'000
Share capital	355,905	355,905
Share premium	80,174	80,174
Retained earnings	722,479	422,877
Equity	1,158,558	858,956
Total borrowings	2,094,994	2,317,050
(Less) / add: cash and cash equivalents (Note 28)	(389,243)	(332,264)
Net debt	1,705,751	1,984,786
Total capital	2,864,309	2,843,742
Gearing ratio	60%	70%

37. EVENTS AFTER THE REPORTING PERIOD

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. As of now, COVID-19 has spread globally and on 11 March 2020 the World Health Organisation ('WHO') declared COVID-19 a pandemic. The first case of this infection was reported in Kenya on 13 March 2020 and since then some other cases have been identified.

The spread of the COVID-19 outbreak has caused severe disruptions in the local and global economy and financial markets and could potentially create widespread business continuity issues, the extent of which is currently indeterminable. Many countries have reacted by instituting quarantines, mandating business and school closures and restricting travel. Many experts predict that the outbreak will trigger a period of global economic slowdown or a global recession.

The Group does not foresee material disruptions in supply chain, finished goods production or distribution but it is expected that the changes in consumer purchasing behaviour will translate into a significant decline in sales revenue over the coming months. The decline in revenue is expected to moderate towards the end of 2020 but a full recovery in 2020 is not likely.

37. EVENTS AFTER THE REPORTING PERIOD (continued)

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

The Group is not currently exposed to significant credit risk on its financial assets as a result of corona virus, however this will continue to be actively monitored by management.

The ultimate impact on the Group 's financial performance for the full year 2020 is unknown at this time, as it will depend heavily on the duration of the measures put into place by respective governments, particularly the social distancing and lockdown mandates, as well as the substance and pace of macroeconomic recovery.

Whereas the pandemic will have some effects on future business performance, the directors have considered the facts and actions taken by the Government of Kenya to minimize the effects of the pandemic. In addition, at the date of the issue of these financial statements, the directors believe the Group will be a going concern for the foreseeable future.

Several action plans have been formulated and implemented by the directors in a bid to mitigate the risks expected. These include:

i) Salary appraisal for the year 2019 in year 2020 is stopped.
ii) No new hiring including expatriates.
iii) ICT related contracts are being negotiated based on cash flow issue.
iv) Landlords of the rented premises have been requested to reduce the rents.
v) All advertising expenses have been put on halt unless it is directly linked to sales improvement.
vi) All planned capex has been put on hold unless the cash flow and business situation improve.
vii) Overtime has been suspended with effect from 1 May 2020.
viii) Suspension of provision of afternoon tea services with effect from 1 May 2020.
ix) Temporary salary cuts, reduction of car allowances and suspension of staff allowances and reward schemes.
The directors are not aware of any other event after the reporting date, as defined by IAS 10 Events after the Reporting Period, that require disclosure in or adjustments to the financial statements as at the date of this report. Consequently, the directors have assessed the post year-end effects of the outbreak as a non-adjusting event.

PROXY FORM

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

PROXY FORM

CROWN PAINTS KENYA PLC

I/We ______________________________

of ______________________________

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

____

of ______________________________

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixty Second Annual General Meeting of the Company to be held on 27 June 2019 and at any adjournment thereof.

Signed/Sealed this ______________ day of ______________ 2019.

Notes:

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

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

If you like it... Crown it!

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