CROWN PAINTS KENYA LTD AND SUBSIDIARIES

ANNUAL REPORT & FINANCIAL STATEMENT 2015

ZERO VOLATILE ORGANIC COMPOUNDS
ENVIRONMENTALLY FRIENDLY PAINT

Based on Method BS EN ISO 11890-2:2006-5 grams/Litre

As safe as nature

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Crown

If you like it... Crown it!

INFINITY X INFINITY

∞ X ∞

EXPERIENCE AN UNLIMITED RANGE OF COLOURS

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NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 59th Annual General Meeting of the Company will be held at the Panafric Hotel, Kenyatta Avenue, Nairobi on Tuesday, 14 June 2016 at 11.00 am. to conduct the following business:

ORDINARY BUSINESS

1 To read the notice convening the meeting.

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

3 To consider and, if approved, adopt the audited Financial Statements for the year ended 31 December 2015 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 2015, and approve the closure of the Register of Members at 4.30 pm on 15 June 2016 for one day only.

5 To approve the Directors' remuneration for 2015.

6 To re-elect a Director:

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

7 To note that Messrs Ernst & Young had expressed their willingness to continue in office as Auditors in accordance with Section 159 (2) of the Companies Act and to authorise the Directors to fix their remuneration for 2016.

SPECIAL BUSINESS

8 To consider and, if thought fit pass the following Resolution as a SPECIAL RESOLUTION of the Company.

That the Articles of Association of the Company be altered by adding the following Article as Article *127a:*

> The Company may, if and as required by law, deliver or pay to any prescribed authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond the relevant prescribed statutory periods. Upon such delivery or payment the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate or successors or assigns for the relevant unclaimed assets.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary

Date: 29th April 2016

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

NB 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, 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.

SHARE REGISTER PERIODIC REPORT FOR MARCH 2016

	TOP 30 SHAREHOLDERS			
	Name	**Residence**	**Total Shares**	**%**
1.	CROWN PAINTS AND BUILDING PRODUCTS LIMITED	LC	34,208,565	48.06%
2.	BEAUMONT PROPERTIES LIMITED	FC	9,862,400	13.86%
3.	BARCLAY HOLDINGS LIMITED	FC	9,702,000	13.63%
4.	LANSBURY LIMITED	LC	4,169,778	5.86%
5.	PAUL WANDERI NDUNGU	LI	862,342	1.21%
6.	MAHENDRA DAHYABHAI PATEL	LI	672,060	0.94%
7.	MAHENDRA FULCHAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI	LI	602,817	0.85%
8.	KANAKSINH KARSANDAS BABLA & SANDIP KANAKSINH BABLA	LI	303,600	0.43%
9.	DSL MOMINEES LTD A/C ORCHARD ESTATE LTD	LC	280,188	0.39%
10.	CFCFS NOMINEES LIMITED A/C HRJC	LC	260,000	0.37%
11.	CROWN PAINTS AND BUILDING PRODUCTS LTD	LC	253,800	0.36%
12.	CFC STANBIC NOMINEES LTD A/C NR1030823	FC	252,900	0.36%
13.	MINESH MULCHAND SHAH	LI	221,332	0.31%
14.	SAVITABEN VELJI RAICHAND SHAH	LI	220,275	0.31%
15.	ZAVERCHAND PUNJA WAREHOUSES LTD	LC	211,200	0.30%
16.	JOHN OKUNA OGANGO	LI	171,000	0.24%
17.	MINESH M. SHAH	LI	147,858	0.21%
18.	BIJAL MULCHAND SHAH	LI	147,312	0.21%
19.	ANANTRAI LAXMIDAS LAKHANI	LI	132,000	0.19%
20.	MAHENDRA KUMAR MANILAL SHAH	LI	118,400	0.17%
21.	NISHITKUMAR RAMNIKLAL SHAH	LI	114,900	0.16%
22.	PRAFULKUMAR HEMRAJ SHAH	LI	113,840	0.16%
23.	ABDULRASUL ISMAIL THAWER	FI	110,550	0.16%
24.	SANJAY GULABSI BHATIA MRS HEMANTI SANJAY BHATIA	LI	99,000	0.14%
25.	SHAZIQUE ENTERPRISES LIMITED	LC	94,710	0.13%
26.	PARESH P UPADHYAY & HASMUKH A JOSHI	LI	89,100	0.13%
27.	SURESHCHANDRA RAICHAND SHAH	LI	83,127	0.12%
28.	SAROJBEN PRAFULKUMAR SHAH	LI	82,020	0.12%
29.	SANDIP VELJI SHAH	LI	78,621	0.11%
30.	RAJNIKANT NATHOOBHAI SHAH	LI	77,220	0.11%

SHARES SELECTED	**63,742,915**	**89.55%**
SHARES NOT SELECTED - 2497 shareholders	**7,438,085**	**10.45%**
SHARES ISSUED	**71,181,000**	**100.00%**
TOTAL NUMBER OF CROWN PAINTS SHAREHOLDERS	**2,527**	
NO. OF CROWN PAINTS SHAREHOLDERS AT THE CDSC	**1,717**	
NO. OF CROWN PAINTS SHARES HELD AT THE CDSC	**22,983,238**	

SHARE REGISTER PERIODIC REPORT FOR MARCH 2016 (continued)

DEMAT ANALYSIS			
	SHARES	**%**	**HOLDERS**
CDSC	22,983,238	32.29%	1,717
CERTIFICATED	48,197,762	67.71%	810
TOTALS	**71,181,000**	**100%**	**2,527**

ANALYSIS BY VOLUME			
VOLUME	**SHARES**	**%**	**HOLDERS**
1 - 500	173,988	0.24%	896
501 - 5,000	2,549,988	3.58%	1,282
5,001 - 10,000	1,286,571	1.81%	176
10,001 - 100,000	4,031,336	5.66%	150
100,001 - 1,000,000	5,196,374	7.30%	19
>1,000,000	57,942,743	81.40%	4
TOTALS	**71,181,000**	**100.00%**	**2,527**

ANALYSIS BY DOMICILE			
DOMICILE	**SHARES**	**%**	**HOLDERS**
FOREIGN COMPANIES	19,825,700	27.85%	5
FOREIGN INDIVIDUALS	361,655	0.51%	28
LOCAL COMPANIES	40,350,292	56.69%	181
LOCAL INDIVIDUALS	10,643,353	14.95%	2,313
TOTAL	**71,181,000**	**100.00%**	**2,527**

BOARD OF DIRECTORS

PATRICK MWATI
Finance Director

FRANCIS MAINA
Non Executive Director

GRACE KEMEI
Non Executive Director

RAKESH RAO
Group Chief Executive Officer

STEPHEN OUNDO
Non Executive Director

HUSSEIN RAMJI
Vice Chairman

EXECUTIVE DIRECTORS

HUSSEIN RAMJI
Vice Chairman

RAKESH RAO
Group Chief Executive Officer

PATRICK MWATI
Finance Director

CHAIRMAN'S STATEMENT

2015, was an unbalanced year in terms of the economies of each country worldwide. Kenya did very well and so did the other countries. It was the year of large devaluation, which affected the overall results for the Group.

2015, Crown solidified its expansion into the regional markets. We are now in Arusha, Mwanza, Dar-es-salaam, and Kigali. The construction of the Crown factory in Kisumu continued. (Officially opened in March 2016). The East African region, continues to accept the Crown and Regal brand, as sales volumes have been increasing as we adapt our products to meet the standards of these countries. The growth potential remains steady as the special effect and special long lasting paints which enhance the life of buildings painted have yet to make an impact in these regional countries.

The Kenyan economy improved in certain sectors, and did badly in others. Overall the economy grew with GDP of around 5%, which is a good growth for the country. Unfortunately, for the economy, the shilling depreciated between 10 and 12%, impacting on all local manufacturers. Crown suffered, as margins of its products fell as we could not compensate the loss of margins with price increases, as the market would not accept price increases, due to higher inflation and less disposable income. The real saving gracing for Kenya and the region, was the real fall in world oil prices, which cushioned the regional economies against a large balance of payments increase in light of decreased exports. Hopefully, pushing ahead into 2016, the world oil commodity price will remain within a 5% price band, to further soften the effect on the market.

We all are aware of the commercial viability of oil in the region, with many wells successfully drilled. However, despite many forecasters predicting the financial benefit to the region, at the manufacturing level, we have not felt any benefit, and still await if any benefit in the short term will be realised.

Going forward, Crown Paints should have a colourful future in the next few years in the region, with many new projects coming up, (new roads and ports to be built, many housing projects, the new SGR railway will open up new areas previously inaccessible). The regional economy is full of new mega projects being considered by private groups, foreign governments and companies. If, even one or two of these projects were to materialise, we now are in a position to commercially offer products for any of the above mentioned growth areas in the construction sector in any country where Crown will have a footprint.

I wish to thank the Board of Directors for their continual, aspiring support which they give with dedication and commitment. I also want to say a thank you to the staff of the company, for their continuous hard work, dedication, creativity, loyalty and which has made Crown the company it is today.

I cannot close this speech, without thanking you, our shareholders on behalf of the Board of Directors, the management and staff, for your continued loyal support of Crown Paints.

Mhamud Charania
Chairman
29th April 2016

GROUP CHIEF EXECUTIVE OFFICER

GROUP CHIEF EXECUTIVE OFFICER STATEMENT

Dear Shareholders,

It is with immense pleasure that I announce the Crown Paints Kenya Limited and its subsidiaries' results for the year 2015, in which profit before tax increased by 43% from 2014, despite major devaluation of all regional currencies against the dollar. We registered a total foreign exchange loss of Ksh 265 Million, which has severely affected the Company's bottom line.

The Kenyan economic performance was more solid than that of other East African economies. The GDP increased by 5.5% over last year, contributing to 11% growth in sales revenue. Tanzania, went to elections and suffered a heavy devaluation of currency of between 30% to 40% against the US Dollar as well as a slow down of business activities since August 2015.

The construction sector once again played a vital role in registering a substantial growth in the Kenyan economy and regional markets alike. Despite the challenges, the Group has managed a gross margin of between 39% to 41%. We also improved our product mix by focusing on sales of premium and fashion design ranges. The Group cash generated from operations increased to Ksh649 Million.

The performance of our subsidiaries has significantly improved except for Tanzania. This is due to unconventional consumer behaviour and geographical dynamics that lead to high transportation costs from the Arusha factory to other locations including Dar es Salaam, Mwanza and Kigali. The ratio of premium to economy sales attained was low leading to high operational costs.

We invested Ksh400 Million in Kisumu to construct a state-of-the-art centre for the production of an additional one (1) Million litres of paint to serve the western region as well as Tanzania and Rwanda. Consequently, this will reduce transportation costs, while improving our margins in these countries.

The year 2015 showed a major slowdown in construction and trading activities due to the elections held in Uganda, Rwanda and Tanzania, which also affected sales revenue growth.

The Group continues to strive for business growth by launching innovative products such as Ultra Guard with Silicone, Timber Master, Cement Putty and Glass Plaster. In addition, the Crown Colour App was launched to assist customers in choosing colours, estimating prices and locating distributors using their mobile phones and tablets.

Our human capital has always played a vital role in dedication to our clients. By launching a special program "Up Your Service", our service levels have been enhanced to match international standards.

As the market leader, we understand that we do not have to rely on quality manufacturing to remain successful. As clients' demographics and needs change, so does our passion to excel and meet those needs. We have perfected this art over the years through innovations that stand out in the market.

This determination has earned us an ISO 14001:2004 certification for the protection of the manufacturing process and adoption of environmentally friendly strategies of paint and resin production. To achieve this we have a fully operational effluent treatment plant that neutralizes the content before disposal as all the waste is treated and re-used.

We have also invested in a dust exhaust system that removes dust and fumes generated during production activities thus eliminating the effects associated with it. In addition, we initiated the use of LED lighting to conserve energy. We carry out staff trainings on environmental management system, health and safety, risk assessment, noise surveys, air quality monitoring, periodical effluent and storm water analysis. Presently we are working towards achieving an OHSAS 18001 – Health and Safety management system.

Green technology is not the only way we ensure the health and safety of our customers. We have a range of products that are fire resistant and also help prevent drawing hence keeping the walls clean. The flame retardant coating helps reduce the spread of fires hence significantly less damage in the event of a fire.

CORPORATE SOCIAL RESPONSIBILITY

We have initiated a number of programmes that transform lives of many people. They range from painting of schools, churches, national monuments, beautification of cities and towns. Other activities include road mapping, planting of trees among others.

GROUP CHIEF EXECUTIVE OFFICER STATEMENT (continued)

Crown Paints staff members that took part in the painting of Kanyakwar Primary School pose for a photo session.

Rakesh Rao hands over a cheque towards Mater Heart Run. The cheque will assist children from families who cannot afford the cost of cardiac surgery.

Crown Paints Kenya CEO Rakesh Rao (right) signs a dummy cheque which he presented to the International Society for Krishna Consciousness (ISKCON) Chairman, Mr. Umapati Das (left) and the administrator Govinda Prem (centre) being a paint donation worth sh 150,000 at Hare Krishna Temple in Ngara. ISKCON will use the paints donated to paint the Temple and the college centre, which is currently being renovated. The centre is used to train about ethics and morality to over 100 students.

Crown Paints quality control chemist, Richard Nimrod (left) demonstrates how to take density of the final paint products to trainee painters during a training program at the firm's factory in industrial area. The firm conducts regular training sessions for trainee painters as part of its strategy to enhance quality painting in the market.

Crown Paints CEO, Rakesh Rao (right) and Gigiri Officer Commanding Police Division (OCPD), Vitalis Otieno (centre) cut a ribbon to officially open the repainted Gigiri Police Station, which was done at a cost Sh 500,000 as part of the firm's corporate responsibility. Looking on is Gigiri OCS, Stephen Ekirapa.

Crown Paints CEO, Rakesh Rao (right) awards Margaret Nduta a certificate after successfully undergoing a training program on various methods of painting at the company's factory in industrial area. The firm conducts regular training sessions for trainee painters as part of its strategy to enhance quality painting in the market.

GROUP CHIEF EXECUTIVE OFFICER STATEMENT (continued)

a major threat to the financial performance of the Group and we hope that it will not continue, so that we are able to manage the costs of raw materials and overall business margins.

We are building a strong foundation across the region as part of our strategy, in order to create more value for stakeholders in the coming year. We are optimistic that the year 2016 will give us a stable currency and stable political environment.

As a brand leader, we will always prioritise our customers by introducing new products, use of innovative technology and by offering quick and cost-effective solutions.

I extend my heartfelt gratitude to my fellow directors, shareholders, employees, customers and other stakeholders for their continued and inspiring support towards creating more value for all stakeholders.

Rakesh Rao
Group Chief Executive officer
29th April 2016

CORPORATE GOVERNANCE

Introduction

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

Governing Body of Crown Paints Kenya Ltd

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

The Board of Directors

The Board comprises of seven (7) 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 in order to achieve the business objectives within the Company's system of internal controls and realize Shareholders' expectations.

Responsibilities

Whilst the Chairman and the Chief Executive Officer are responsible for the profitable operations of the company. Their roles are separate, with each having distinct and clearly defined duties and responsibilities. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating productive contributions 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 considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company. They have a responsibility to ensure that the business strategy and operations are fully discussed and critically reviewed. They have no service contracts with the Company but have letters of appointment which stipulates the terms of their appointment.

Composition of the board

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. They are eligible for re-election. The current composition of the Board is given on page 17

CORPORATE GOVERNANCE (continued)

Board Meetings

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

Board Committees

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

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

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

The Board appoints other committees as and when required.

Communication with Shareholders

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services is disclosed in Note 10 (v), page 65 to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

The directors submit their report and the consolidated audited financial statements for the year ended 31 December 2015, which show the state of the Group's and Company's affairs.

1. PRINCIPAL ACTIVITIES

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

2. GROUP RESULTS

The results for the year are set out on page 23.

3. COMPANY RESULTS

The results for the year are set out on page 27.

4. DIVIDENDS

Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 0.60 (2014: KShs 1.75) per share amounting to KShs 42,708,600 (2014: KShs 41,522,250).

5. FINANCIAL STATEMENTS

Except as indicated in note 34, the directors were not aware of any circumstances, which would have rendered the values attributed to assets and liabilities in the financial statements of the Group and the Company misleading.

6. RESERVES

The reserves of the Group and the Company are set out in Note 13.

7. DIRECTORS

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

Mhamud Charania	-	Chairman (Non-executive)
Hussein Charania	-	Vice Chairman
Rakesh Rao	-	Group Chief Executive Officer
Patrick Mwati	-	Finance Director
Francis Maina	-	Non-executive Director
Stephen Bwire Oundo	-	Non-executive Director – Appointed - 29 April 2015
Grace Kemei	-	Non-executive Director – Appointed - 17 June 2015

8. AUDITORS

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

9. GOING CONCERN

The directors have made an assessment of the company's and subsidiaries' ability to continue as a going concern and are satisfied that they have the resources to continue in business for the foreseeable future. Further, the directors are not aware of any material uncertainties that may cast significant doubt on the ability of the entities to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

By Order of the Board

Conrad Nyukuri
Secretary
29th April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

As disclosed in note 34, the financial statements of the subsidiaries have been prepared on going concern basis on the assumption that the parent company will continue providing financial support necessary to meet their financial obligations. The subsidiaries rely on the parent company for provision of working capital. The parent company has undertaken to help the subsidiaries meet their financial obligations. In view of this, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements of the subsidiaries which have been consolidated in these financial statements.

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

Therefore, nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain as going concerns for at least the next twelve months from the date of this statement.

Group Chief Executive Officer

Finance Director
29th April 2016

EY
Building a better working world

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Certified Public Accountants
Kenya Re Towers
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Nairobi GPO, Kenya

Tel: +254 20 2715300
Email: info@ke.ey.com
www.ey.com

Report on the consolidated financial statements

We have audited the accompanying consolidated and separate financial statements of Crown Paints Kenya Limited (the company) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the statement of financial position of the company as at 31 December 2015, and the statement of profit or loss and other comprehensive income of the company, statement of changes in equity of the company and statement of cash flows of the company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 22 to 88.

Directors' Responsibility for the consolidated financial Statements

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

Auditor's responsibility

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

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

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

Opinion

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 34 to the financial statements, which explains the status of the company's subsidiaries. As indicated in the note, the subsidiaries, which contribute significantly to the performance of the group, incurred losses during the year ended 31 December 2015 and, as of that date, their total liabilities exceeded total assets. These conditions, along with other matters as set forth in note 34, indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Report on other legal and regulatory requirements

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

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

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

iii) The Company's statement of financial position and statement of profit and loss and other comprehensive income are in agreement with the books of account.

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

Nairobi
29th April 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,177,776	936,764
Intangible assets	4	45,703	40,913
Prepaid leases on land	5	8,229	8,494
Deferred tax	15	13,933	-
		1,245,641	986,171
CURRENT ASSETS			
Inventories	8	1,615,261	1,285,040
Trade and other receivables	9	1,260,264	1,198,990
Amounts due from related companies	10(i)	309,514	222,483
Cash and cash equivalents	29	108,468	138,525
Current tax recoverable	11	-	21,605
		3,293,507	2,866,643
TOTAL ASSETS		**4,539,148**	**3,852,814**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	355,905	118,635
Reserves	13	996,877	1,228,696
		1,352,782	1,347,331
NON-CURRENT LIABILITIES			
Bank loan	17	209,903	-
Deferred tax	15	-	4,925
		209,903	**4,925**
CURRENT LIABILITIES			
Bank overdraft	16	160,840	310,657
Bank loans	17	305,755	264,104
Short term notes	18	650,989	610,253
Amounts due to related companies	10(ii)	216,910	150,240
Trade and other payables	19	1,589,205	1,165,304
Current tax payable	11	52,764	-
		2,976,463	2,500,558
TOTAL EQUITY AND LIABILITIES		**4,539,148**	**3,852,814**

The financial statements were approved by the Board of Directors on 29th April 2016 and signed on its behalf by:

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
REVENUE	20	6,737,108	6,039,061
COST OF SALES	21	(3,956,493)	(3,665,796)
GROSS PROFIT		2,780,615	2,373,265
OTHER INCOME	22	233,954	144,397
		3,014,569	2,517,662
EXPENSES:-			
Administration and establishment	23	(1,684,167)	(1,260,087)
Selling and distribution	24	(958,172)	(1,018,206)
Finance costs	25	(155,533)	(87,888)
		(2,797,872)	(2,366,181)
PROFIT BEFORE TAX	27	216,697	151,481
TAX EXPENSE	11	(185,949)	(131,766)
PROFIT FOR THE YEAR		**30,748**	**19,715**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		3,494	3,257
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		3,494	3,257
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**34,242**	**22,972**
ATTRIBUTABLE TO:			
Owners of the parent		34,242	22,972
Non- Controlling interest		-	-
		34,242	**22,972**
Basic and diluted earnings per share (KShs)	28	**0.43**	**0.28**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation KShs'000	Foreign currency translation reserve KShs'000	Retained KShs'000	Total KShs'000
At 1 January 2014		118,635	80,174	115,583	6,574	1,040,748	1,361,714
Profit for the year		-	-	-		19,715	19,715
Other comprehensive income		-	-	-	3,257	-	3,257
Total comprehensive income		-	-	-	3,257	19,715	22,972
Transfer of excess depreciation- 2014		-	-	(13,890)	-	13,890	-
Deferred tax on excess depreciation		-	-	-	-	4,167	4,167
2013 final dividend paid	14	-	-	-	-	(41,522)	(41,522)
At 31 December 2014		**118,635**	**80,174**	**101,693**	**9,831**	**1,036,998**	**1,347,331**
At 1 January 2015		118,635	80,174	101,693	9,831	1,036,998	1,347,331
Profit for the year		-	-	-		30,748	30,748
Other comprehensive income		-	-	-	3,494	-	3,494
Total comprehensive income		-	-	-	3,494	30,748	34,242
Bonus issue 2 shares for every 1 held	12	237,270	-	-	-	(237,270)	-
Transfer of excess depreciation- 2015		-	-	(13,890)	-	13,890	-
Deferred tax on excess depreciation		-	-	-	-	12,731	12,731
2014 final dividend paid	14	-	-	-	-	(41,522)	(41,522)
At 31 December 2015		**355,905**	**80,174**	**87,803**	**13,325**	**815,575**	**1,352,782**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

OPERATING ACTIVITIES	**Note**	**2015 KShs'000**	**2014 KShs'000**
Profit before tax		216,697	151,481
Adjustments for:-			
Depreciation of property, plant and equipment	3	142,782	119,927
Amortisation of intangible assets	4	13,325	11,186
Amortisation of prepaid leases on land	5	265	265
Unrealised foreign exchange loss		134,818	14,465
Unrealised foreign exchange gain		(24,812)	-
Interest expense		155,533	87,888
Interest income	22	(2,184)	(2,429)
Loss/(gain) on disposal of property, plant and equipment	22 & 23	389	(3,506)
Operating profit before working capital changes		636,813	379,277
Increase in trade and other receivables		(61,275)	(179,101)
Increase in inventories		(330,222)	(386,169)
Increase in trade and other payables		423,908	219,823
Increase in amounts due from related party balances		(90,654)	(123,523)
Increase in amounts due to related party balances		70,292	79,871
Cash (used in)/ generated from operations		648,863	(9,822)
Income tax paid	11	(143,170)	(183,566)
Interest received	22	2,184	2,429
Interest paid	25	(168,352)	(87,888)
Net cash used in operating activities		339,524	(278,847)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(379,675)	(320,602)
Purchase of intangible assets	4	(18,097)	(19,228)
Proceeds on sale of property, plant and equipment		1,316	6,106
Investment in subsidiary		-	(1,293)
Net cash used in investing activities		(396,456)	(335,017)
FINANCING ACTIVITIES			
Proceeds from bank loan		251,554	74,929
Proceeds from short term notes		40,736	351,335
Dividends paid on ordinary shares	14	(41,522)	(41,522)
Net cash generated from financing activities		250,768	384,742
Net increase/(decrease) in cash and cash equivalents		193,836	(229,122)
Cash and cash equivalents at the beginning of the year		(172,132)	68,198
Foreign translation currency reserve		3,494	3,257
Effect of exchange rate changes on cash & cash equivalents		(77,570)	(14,465)
Cash and cash equivalents at the end of the year	**29**	**(52,372)**	**(172,132)**

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

ASSETS	Note	2015 KShs'000	2014 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,083,162	843,880
Intangible assets	4	36,846	39,592
Prepaid leases on land	5	8,229	8,494
Investments in subsidiary companies	6	48,512	48,512
Deposit for shares	7	204,028	204,028
Deferred tax	15	13,933	-
		1,394,710	1,144,506
CURRENT ASSETS			
Inventories	8	1,359,048	1,110,571
Trade and other receivables	9	883,293	941,427
Amounts due from related parties	10(i)	1,428,411	984,170
Current tax recoverable	11	-	19,427
Cash and cash equivalents	29	78,947	92,787
		3,749,699	3,148,382
TOTAL ASSETS		**5,144,409**	**4,292,888**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	355,905	118,635
Reserves	13	1,724,312	1,744,356
		2,080,217	1,862,991
NON CURRENT LIABILITIES			
Bank loan	17	209,903	-
Deferred tax	15	-	4,925
		209,903	4,925
CURRENT LIABILITIES			
Bank overdraft	16	160,838	297,395
Bank loans	17	305,755	264,104
Short term notes	18	650,989	610,253
Trade and other payables	19	1,415,624	1,063,671
Amounts due to related parties	10(ii)	261,332	189,549
Current tax payable	11	59,751	-
		2,854,289	2,424,972
TOTAL EQUITY AND LIABILITIES		**5,144,409**	**4,292,888**

The financial statements were approved by the Board of Directors on 29th April 2016 and signed on its behalf by: -

Rakesh Rao
Group Chief Executive Officer

Patrick Mwati
Finance Director

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
REVENUE	20	6,385,224	5,804,909
COST OF SALES	21	(3,836,429)	(3,577,832)
GROSS PROFIT		2,548,795	2,227,077
OTHER INCOME	22	213,279	128,960
		2,762,074	2,356,037
EXPENSES: -			
Administration and establishment	23	(1,357,339)	(1,075,991)
Selling and distribution	24	(792,614)	(841,105)
Finance costs	25	(155,533)	(87,578)
		(2,305,486)	(2,004,674)
PROFIT BEFORE TAX	27	456,588	351,363
TAX EXPENSE	11	(185,109)	(131,766)
PROFIT FOR THE YEAR		271,479	219,597
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**271,479**	**219,597**
Basic and diluted earnings per share (KShs)	28	3.81	3.09

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2014		118,635	80,174	155,959	1,325,981	1,680,749
Profit for the year		-	-	-	219,597	219,597
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	219,597	219,597
Transfer of excess depreciation- 2014				(13,890)	13,890	-
Deferred tax on excess depreciation				-	4,167	4,167
2013 final dividend paid	14	-	-	-	(41,522)	(41,522)
At 31 December 2014		**118,635**	**80,174**	**142,069**	**1,522,113**	**1,862,991**
At 1 January 2015		118,635	80,174	142,069	1,522,113	1,862,991
Profit for the year		-	-	-	271,479	271,479
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	271,479	271,479
Bonus issue 2 shares for every 1 share held	12	237,270	-	-	(237,270)	-
Transfer of excess depreciation- 2015		-	-	(13,890)	13,890	-
Deferred tax on excess depreciation		-	-	-	(12,731)	(12,731)
2014 final dividend paid	14	-	-	-	(41,522)	(41,522)
At 31 December 2015		355,905	80,174	128,179	1,515,959	2,080,217

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

OPERATING ACTIVITIES	Note	2015 KShs'000	2014 KShs'000
Profit before tax		456,588	351,363
Adjustments for:-			
Depreciation on property, plant and equipment	3	116,824	98,814
Amortisation of intangible assets	4	12,319	10,784
Amortisation of prepaid leases on land	5	265	265
Unrealised exchange loss		23,266	8,873
Unrealised exchange gain		(21,774)	-
Interest expense	25	155,533	87,578
Interest income	22	(2,181)	(2,429)
Loss on disposal of property, plant and equipment	22 & 23	750	(1,540)
Operating profit before working capital changes		741,590	553,708
Decrease/ (increase) in trade and other receivables		58,134	(33,698)
Increase in inventories		(248,477)	(322,737)
Increase in trade and other payables		351,954	217,551
Increase in amounts due from related parties		(447,864)	(565,363)
Decrease in amounts due to related parties		75,406	87,927
Cash generated from / (used in) operations		530,743	(62,612)
Income tax paid	11	(137,521)	(181,420)
Interest received	22	2,181	2,429
Interest paid		(168,352)	(87,578)
Net cash generated from /(used in) operating activities		227,051	(329,181)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(344,060)	(261,958)
Purchase of intangible assets	4	(9,573)	(17,936)
Proceeds from sale of property, plant and equipment		23	3,256
Investment in subsidiary	6	-	(1,293)
Net cash used in investing activities		(353,610)	(277,931)
FINANCING ACTIVITIES			
Proceeds from bank loan		251,554	74,929
Proceeds from short term notes		40,736	351,335
Dividends paid on ordinary shares	14	(41,522)	(41,522)
Net cash generated from financing activities		250,768	384,742
Net increase/ (decrease) in cash and cash equivalents		124,209	(222,370)
Cash and cash equivalents at the beginning of the year		(204,608)	26,635
Effect of exchange rate changes on cash and cash equivalents		(1,492)	(8,873)
Cash and cash equivalents at the end of the year	**29**	**(81,891)**	**(204,608)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The Group applied for the first time certain standards, improvements and amendments, which are effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment are described below:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
  - IFRS 2: Share-based Payment
  - IFRS 3: Business Combinations
  - IFRS 8: Operating Segments
  - IAS 16: Property, Plant and Equipment and IAS 38 Intangible Assets
  - IAS 24: Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
  - IFRS 3: Business Combinations
  - IFRS 13: Fair Value Measurement
  - IAS 40: Investment Property

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the the Group, since none of the entities within the group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these financial statements.
They include:

IFRS 2 Share-based Payment
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. These amendments did not impact the Group's financial statements or accounting policies since it does not have share based payments.

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not have any impact on the Group's financial statements.

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. No operating segments have been aggregated to form the operating segments in Note 34. The amendment will have no impact as segments are not aggregated
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

Disclosures related to operating segments have been made on Note 33 to the financial statements..

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant to the Group, as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that joint arrangements, not just joint ventures, are outside the scope of IFRS 3.

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

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

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

IAS 40 Investment Property
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

Standards, improvements and amendments 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 are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirementls are generally applied prospectively, with some limited exceptions.

The Group is in the process of assessing the impact of the standard. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is still in the process of determining the impact of the new requirements of the standard.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.
Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

1. NEW AND AMENDED STANDARDS, INTERPRETATIONS AND IMPROVEMENTS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

(c) Hedge accounting

The Group has no existing hedge relationships that qualify for hedge accounting under IFRS 9.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group as it does not have such arrangements.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.
IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is in the business of manufacture and sale of paints and adhesives.

1. NEW AND AMENDED STANDARDS, INTERPRETATIONS AND IMPROVEMENTS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(a) Sale of goods
Contracts with customers in which sale of paint is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods. In applying IFRS 15, the Group is considering the following:

(i) Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group will reassess the impact of deferred revenue recognition due to variable consideration under IFRS 15 once it's adopted.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

(ii) Warranty obligations
The Group does not provide warranties to its customers

(iii) Loyalty points programme
The Group does not currently have in place a loyalty programme offered to its customers.

(b) Rendering of services
The Group carries out painting services to its customers through apply and supply department. These services are sold either on their own in contracts with the customers. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the grouphas not used a revenue-based method to depreciate its non-current assets.

1. NEW AND AMENDED STANDARDS, INTERPRETATIONS AND IMPROVEMENTS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's financial statements as it will continue to use the cost method for its investment in subsidiaries.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively with early adoption permitted. In December 2015, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have an impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures
(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

1. NEW AND AMENDED STANDARDS, INTERPRETATIONS AND IMPROVEMENTS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Other Amendments

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

1. NEW AND AMENDED STANDARDS, INTERPRETATIONS AND IMPROVEMENTS (continued)

Standards, improvements and amendments issued but not yet effective (continued)

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

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

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

IAS 7 Statement of Cash flows
The amendments to IAS 7 Statement of Cash flows require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are intended to provide information to help investors better understand changes in company's debt.

The new standard is effective for annual periods beginning on or after 1 January 2017 but early adoption is permitted. Entities are not required to provide comparative information for preceding periods.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.

The new standard is effective for annual periods beginning on or after 1 January 2017 but early adoption is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

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

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
A listing of the subsidiaries in the Group is provided in Note 6.

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

c) Foreign currency transactions

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

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

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

The gain or loss arising on 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

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

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

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

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

e) Taxation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

Deferred tax (continued)

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Taxation (continued)

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

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

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

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

f) Property, plant and equipment

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

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

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

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

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

Land is stated at cost less any accumulated impairment losses.

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 values of the assets to their residual values over their expected useful lives. The annual depreciation rates in use are as follows:

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

An item of property, plant and equipment and any significant part initially recognized is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.
The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

g) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leases (continued)

Group as a lessor (continued)

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

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. Borrowing costs capitalized during the year ended 31 December 2015 amounts to KShs 12.8 Million (2014: Nil).

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

i) Intangible assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Intangible assets (continued)

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

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

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

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

The Group's financial assets include cash and cash equivalents, deposit for shares trade and other receivables, and amounts due from related parties.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees of costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss. An estimate is made of impaired receivables based on review of all outstanding amounts at year-end. The losses arising from impairment are recognised in profit or loss as part of selling and distribution expenses.
Bad debts are written off after all efforts of recovery have been exhausted. Loans and receivables category includes cash and cash equivalents, deposit for shares, amounts due from related companies, trade and other receivables.

Derecognition

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Impairment of financial assets

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii) Financial liabilities

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

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

The Group's financial liabilities include trade and other payables, amounts due to related parties, bank overdrafts, 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 rate 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 rate method.

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

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

iv) Offsetting of financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Fair value of assets and liabilities

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to Note 31.

l) Inventories

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Inventories (continued)

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

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

m) Impairment of non-financial assets

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

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

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

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 equivalents approximate the fair value due to the short term nature thereof.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions

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

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

p) Employee benefits

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

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

Statutory pension scheme
The Group also makes contributions to the statutory defined contribution schemes in the four countries where operations are based. Contributions to defined contribution schemes 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 and constructive obligation to pay this amount as a result of past service provided by the employee, the obligation can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

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

(i) Judgements

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

Allowances for obsolete inventories

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

Impairment of financial instruments

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

Operating Lease Commitments–Group as Lessor

The Group has entered into commercial property leases on some of its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Refer to Note 30 for disclosure on the lease commitments.

(ii) Estimates and assumptions

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

Useful lives of property, plant and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Estimates and assumptions (continued)

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 last revalued on 1 December2011. The assets were valued on the basis of open market value by independent valuers, Real Appraisal Limited.

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

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

Impairment losses
At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Refer to Notes 3, 4, 6, and 8. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Contingent liabilities
As disclosed in Note 30 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.

s) Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2015

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2015	25,528	456,986	396,159	206,568	638,819	37,529	1,761,589
Additions	6,120	1,772	14,753	41,112	88,293	240,444	392,494
Transfer (to)/from WIP	504	(1,907)	-	-	6,780	(5,377)	-
Disposals	-	-	-	(7,368)	-	-	(7,368)
Exchange differences	-	-	(2,754)	(2,958)	(3,959)	(157)	(9,828)
At 31 December 2015	**32,152**	**456,851**	**408,158**	**237,354**	**729,933**	**272,439**	**2,136,887**
Accumulated depreciation							
At 1 January 2015	-	81,462	263,157	126,343	353,863	-	824,825
Charge for the year	-	9,127	22,943	39,091	71,621	-	142,782
Eliminated on disposals	-	-	-	(5,664)	-	-	(5,664)
Exchange differences	-	-	(859)	(1,030)	(943)	-	(2,832)
At 31 December 2015	-	90,589	285,241	158,740	424,541	-	959,111
Carrying Amount	**32,152**	**366,262**	**122,917**	**78,614**	**305,392**	**272,439**	**1,177,776**

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

	Freehold Land KShs'000	Buildings Machinery KShs'000	Plant and vehicles KShs'000	Motor fittings & Equipment KShs'000	Furniture KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	-	252,262	343,080	212,729	739,258	-	1,547,329
Accumulated depreciation	-	(49,596)	(254,206)	(152,582)	(425,704)	-	(882,088)
	-	**202,666**	**88,874**	**60,147**	**313,554**	**-**	**665,241**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2014

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At January 2014	25,528	417,851	377,402	167,774	456,129	-	1,444,684
Additions	-	39,135	20,397	44,272	179,269	37,529	320,602
Transfer from WIP	-	-	-	-	-	-	-
Disposals	-	-	(660)	(4,692)	(695)	-	(6,047)
Exchange differences	-	-	(980)	(786)	4,116	-	2,350
At 31 December 2014	**25,528**	**456,986**	**396,159**	**206,568**	**638,819**	**37,529**	**1,761,589**
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	250,624	331,081	181,944	648,144	37,529	1,474,850
	25,528	456,986	396,159	206,568	638,819	37,529	1,761,589
Accumulated depreciation							
At 1 January 2014	-	73,487	241,351	93,856	299,484	-	708,178
Charge for the year	-	7,975	22,676	35,357	53,919	-	119,927
Eliminated on disposals	-	-	(430)	(2,895)	(124)	-	(3,449)
Exchange differences	-	-	(440)	25	584	-	169
At 31 December 2014	-	81,462	263,157	126,343	353,863	-	824,825
Carrying Amount	**25,528**	**375,524**	**133,002**	**80,225**	**284,956**	**37,529**	**936,764**

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and Machinery KShs'000	Motor vehicles Equipment KShs'000	Furniture fittings & KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	-	250,624	331,081	181,944	648,144	-	1,411,793
Accumulated depreciation	-	(40,469)	(232,123)	(120,186)	(355,025)	-	(747,803)
	-	**210,155**	**98,958**	**61,758**	**293,119**	**-**	**663,990**

*Capital work-in-progress represents costs incurred on ongoing work in the construction of a factory in Kisumu and 35% payment for fitting Uganda show room. Work-in-progress is not depreciated until the assets are completed and brought into use.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2015

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2015	25,528	456,986	311,865	165,727	585,415	35,381	1,580,902
Additions	6120	1,772	13,016	33,098	67,218	235,655	356,879
Disposals	-	-	-	(2,635)	-	-	(2,635)
Transfer (to)/from WIP	504	(1,907)	-	-	-	1,403	-
At 31 December 2015	**32,152**	**456,851**	**324,881**	**196,190**	**652,633**	**272,439**	**1,935,146**
Accumulated depreciation							
At 1 January 2015	-	81,463	208,135	110,673	336,751	-	737,022
Charge for the year	-	9,127	15,720	29,737	62,240	-	116,824
Eliminated on Disposals	-	-	-	(1,862)	-	-	(1,862)
At 31 December 2015	**-**	**90,590**	**223,855**	**138,548**	**398,991**	**-**	**851,984**
Carrying Amount							
At 31 December 2015	**32,152**	**366,261**	**101,026**	**57,642**	**253,642**	**272,439**	**1,083,162**

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	Furniture, and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	-	250,625	246,787	141,103	594,740	-	1,233,255
Accumulated depreciation	-	(46,350)	(188,044)	(126,234)	(401,323)	-	(761,951)
	-	**204,275**	**58,743**	**14,869**	**193,417**	**-**	**471,304**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2014

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2014	25,528	417,852	305,196	143,283	431,747	-	1,323,606
Additions	-	39,134	6,669	26,410	154,364	35,381	261,958
Disposals	-	-	-	(3,966)	(696)	-	(4,662)
At 31 December 2014	**25,528**	**456,986**	**311,865**	**165,727**	**585,415**	**35,381**	**1,580,902**
Comprising:							
Valuation	-	206,362	65,078	24,624	(9,325)	-	286,739
Cost	25,528	250,624	246,787	141,103	594,740	35,381	1,294,163
	25,528	456,986	311,865	165,727	585,415	35,381	1,580,902
Accumulated depreciation							
At 1 January 2014	-	73,488	192,437	86,199	289,030	-	641,154
Charge for the year	-	7,975	15,698	27,296	47,845	-	98,814
Eliminated on Disposals	-	-	-	(2,822)	(124)	-	(2,946)
At 31 December 2014	-	81,463	208,135	110,673	336,751	-	737,022
Carrying Amount							
At 31 December 2014	**25,528**	**375,523**	**103,730**	**55,054**	**248,664**	**35,381**	**843,880**

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

	Freehold Land KShs'000	Buildings KShs'000	Plant and, machinery KShs'000	Motor vehicles KShs'000	fittings and equipment KShs'000	Work in Progress* KShs'000	Total KShs'000
Cost	-	250,624	246,787	141,103	594,740	-	1,233,254
Accumulated depreciation	-	(37,223)	(172,324)	(98,360)	(339,082)	-	(646,989)
	-	**213,401**	**74,463**	**42,743**	**255,658**	**-**	**586,265**

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) COMPANY – Year ended 31 December 2014 (continued)

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

The basis of valuation was: -

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

The methods used to determine the fair value was the 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 valuation was undertaken by independent professional valuer, Real Appraisal Limited. The revaluation surplus was credited to revaluation reserve while the revaluation deficit was charged to profit or loss.
The Kenya Commercial Bank Limited and Commercial Bank of Africa Limited facilities are secured by debenture of KShs 398 million and USD 1.8 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
Borrowing costs capitalized during the year ended 31 December 2015 amounted to KShs 12.8 Million (2014: Nil)

(c) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 ONF 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.

Under the revised International Accounting standards No. 17 (IAS 17), a 99 year lease qualifies for a finance lease classification if the lessor transfers significantly risks and rewards incidental to the ownership of the land to the Company.

Accordingly, the new 99 year lease would qualify as a finance lease. The Company currently accounts for its land previously classified as freehold in a similar manner to finance leases.

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

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Cost				
At 1 January	113,523	94,312	110,951	93,015
Additions	18,097	19,228	9,573	17,936
Exchange difference	-	(17)	-	-
At 31 December	**131,620**	**113,523**	**120,524**	**110,951**
Amortisation				
At 1 January	72,610	61,496	71,359	60,575
Charge for the year	13,325	11,186	12,319	10,784
Exchange difference	(18)	(72)	-	-
At 31 December	85,917	72,610	83,678	71,359
Carrying Amount	45,703	40,913	36,846	39,592

Intangible assets relate to computer software in use by the Group. The intangible assets have a finite life of 5 years.
There were no borrowing costs capitalized during the year ended 31 December 2015 (2014: Nil)
No intangible assets have been pledged as security (2014:Nil)

5. PREPAID LEASES

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Cost				
At 1 January and December	13,000	13,000	13,000	13,000
Accumulated amortisation				
At 1 January	4,506	4,241	4,506	4,241
Charge for the year	265	265	265	265
At 31 December	4,771	4,506	4,771	4,506
Carrying Amount	**8,229**	**8,494**	**8,229**	**8,494**

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 2015 is 31 years.
ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2015 is 31 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

6. INVESTMENT IN SUBSIDIARIES

Information about subsidiaries

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

Details of investment	Country of incorporation	Activity	Holdings %	2015 KShs'000	2014 KShs'000
Crown Paints Allied Industries Limited (10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of adhesives	100	10,000	10,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) (5,000 ordinary shares of KShs 400 each)	Uganda	Selling of auto paints and decorative products	100	2,000	2,000
Crown Paints Tanzania Limited (1,905 ordinary shares of KShs 5,426)	Tanzania	Selling of auto paints and decorative products	100	35,219	35,219
Crown Paints Rwanda Limited (1000 ordinary shares of KShs 1,293)	Rwanda	Selling of auto paints and decorative product	100	1,293	1,293
				48,512	**48,512**

7. DEPOSIT FOR SHARES

	COMPANY	
	2015 KShs'000	**2014 KShs'000**
Regal Paints Uganda Limited	80,000	80,000
Crown Paints Allied Industries Limited	124,028	124,028
	204,028	**204,028**

This relates to deposit made in Regal Paints Uganda Limited and capitalisation of amounts due from Crown Paints Allied Industries Limited pending allotment of shares. Deposit for shares is evaluated by the Company based on assessment of the risk of impairment of the subsidiary companies. As at the close of the year, there were no impairment indicators on the subsidiary companies. The fair value information on the deposits has not been disclosed because their fair value cannot be measured reliably since the underlying shares are not quoted. The company does not intend to dispose of the subsidiaries in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

8. INVENTORIES

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Finished goods and packaging materials	801,938	553,382	605,240	428,827
Raw materials	580,945	568,284	519,353	517,191
Goods in transit	270,805	162,151	270,805	162,204
Work In progress	24,403	24,082	20,844	21,830
	1,678,091	1,307,899	1,416,242	1,130,052
Inventories write-down to NRV	(62,830)	(22,859)	(57,194)	(19,481)
	1,615,261	1,285,040	1,359,048	1,110,571

The amount of inventories write-down reversed during the year was KShs 803,000 (2014: KShs 43,798,000) for the Group and KShs 2,500,000 (2014: KShs 43,798,000) for the Company, for inventories carried at net realisable value. This is recognised in cost of sales.

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

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
At beginning	22,859	44,746	19,481	43,798
Provision for the year	40,774	21,911	40,213	19,481
Reversals for write down	(803)	(43,798)	(2,500)	(43,798)
	62,830	**22,859**	**57,194**	**19,481**

9. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Trade receivables	1,105,057	1,016,279	769,660	809,418
Other receivables	61,383	93,013	28,183	48,596
Prepayments	93,824	89,698	85,450	83,413
	1,260,264	1,198,990	883,293	941,427

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% pegged on 91 day treasury bill as prescribed by the Commissioner of Income Tax, for a period not exceeding 36 months. The staff loans are secured against the log books. Staff floats and deposits with suppliers are made in the ordinary course of business and are non-interest bearing. They are for a period not exceeding two months. Prepayments were made in the ordinary course of business with regard to insurance premiums and computer software licences.

9. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2015, Group trade receivables with initial value of KShs266,395,000 (2014 - KShs 245,147,000) were fully provided for. The Company trade receivables with initial value of KShs 215,743,000 (2014 - KShs 218,157,000) were fully provided for.

Trade and other receivables are carried net of provision for bad and doubtful debts. The movement in the provision for bad and doubtful debts is as set out below:

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
At beginning	245,147	172,499	218,157	150,500
Charge for the year (Note 24)	98,985	114,286	73,806	108,890
Used during the year (write-off)	(2,018)	(205)	(1,213)	-
Recoveries in the year (note 22)	(75,719)	(41,433)	(75,007)	(41,233)
	266,395	**245,147**	**215,743**	**218,157**
Ageing analysis for trade receivables:				
Less than 60 days (neither past due nor impaired)	820,568	778,649	667,861	716,582
61 days to 90 days	101,566	81,149	60,107	33,863
Over 90 days	449,318	401,628	257,435	277,130
	1,371,452	1,261,426	985,403	1,027,575
Impaired	(266,395)	(245,147)	(215,743)	(218,157)
Total	**1,105,057**	**1,016,279**	**769,660**	**809,418**

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:

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Less than 60 days (neither past due nor impaired)	9,257	42,853	5,014	255
61 days to 90 days	1,753	-	1,689	-
Over 90 days	50,373	50,160	21,480	48,341
	61,383	93,013	28,183	48,596
Impaired	-	-	-	-
Total	**61,383**	**93,013**	**28,183**	**48,596**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48% of the Company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 13.63% 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 Limited is Barclay Holdings Limited. The remaining 38.31% of the shares are widely held through the Nairobi Securities Exchnage. 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	
	2015 KShs'000	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
Receivables from related companies:				
Crown Paints and Building Products Limited	291,236	204,205	291,236	204,205
Regal Paints Uganda Limited	-	-	468,120	423,323
Crown Paints Allied Industries Limited	-	-	573	127
Crown Paints Rwanda Limited	-	-	140,710	52,469
Crown Paints Tanzania Limited	-	-	509,494	285,768
Border Properties Limited	18,278	18,278	18,278	18,278
	309,514	**222,483**	**1,428,411**	**984,170**
Ageing analysis				
Less than 60 days (neither past due nor impaired)	36,126	62,563	82,570	135,784
61 days to 90 days	6,835	4,885	25,365	39,918
Over 90 days	266,553	155,035	1,320,476	808,468
	309,514	222,483	1,428,411	984,170
Impaired	-	-	-	-
Neither past due nor impaired	**309,514**	**222,483**	**1,428,411**	**984,170**
(ii) Payables to related companies:				
Crown Paints Allied Industries Limited	-	-	46,712	41,034
Daxian Limited	214,620	146,245	214,620	146,245
Border Properties Limited	2,290	2,485	-	-
Regal Paints Uganda Limited		-	-	760
Crown Paints and Building Products Limited	-	1,510	-	1,510
	216,910	150,240	261,332	189,549

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	GROUP		COMPANY	
	2015 KShs'000	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
(iii) Sale and services rendered:				
Crown Paints Allied Industries Limited	-	-	581	7,489
Crown Paints Rwanda Limited	-	-	126,568	31,459
Regal Paints Uganda Limited	-	-	206,613	183,572
Crown Paints Tanzania Limited	-	-	204,220	141,943
Crown Paints and Building Products Limited	707	-	707	-
Purchase of goods				
Crown Paints Allied Industries Limited	-	-	44,564	45,341
Regal Paints Uganda Limited	-	-	-	199
Services rendered				
Daxian Limited	85,469	119,954	85,469	119,954
Crown Paints and Building Products Limited	14,098	16,566	14,098	16,566

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

Border Properties Limited is an associate company registered in Uganda in 2013. The company is yet to start operations. The balance was advanced to facilitate acquisition of land in Uganda. Crown Paints Kenya Limited owns 49% of the company. Investment in the associate company is not material.

	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
(iv) Key management personnel compensation				
Short term employee benefits	160,826	183,836	160,826	183,836
Defined contribution plan	4,416	5,176	4,416	5,176
	165,242	**189,012**	**165,242**	**189,012**
(v) Directors' remuneration				
Fees for services as directors	9,694	7,038	9,694	7,038
Other emoluments (included in key management compensation above)	100,826	93,507	100,826	93,507
	110,520	**100,545**	**110,520**	**100,545**
Loans to related parties				
Key management	3,727	6,800	3,727	6,800
Directors	22,860	38,156	22,860	38,156

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(vi) Short term note due to related parties

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Crown Paints & Building Products Limited	46,976	-	46,976	-
Directors	113,127	7,624	113,127	7,624
Daxian Limited	23,029	54,634	23,029	54,634
	183,132	**62,258**	**183,132**	**62,258**

Key management personnel comprise heads of departments and senior managers of the Group.
Terms and conditions of transactions with related parties
Amount due from and due to related parties are non interest bearing and current. The loans to key management and directors are issued to purchase motor vehicles at an interest rate of 8% for a period not exceeding 36 months. The loans are secured against the log books. The other amount due to or from related parties are not secured.
For the year ended 31 December 2015, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2014: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

11. TAXATION STATEMENT OF FINANCIAL POSITION

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Balance brought forward	(21,605)	24,366	(19,427)	24,398
Charge for the year	217,539	137,595	216,699	137,595
Paid during the year	(143,170)	(183,566)	(137,521)	(181,420)
Current tax payable / (recoverable)	**52,764**	**(21,605)**	**59,751**	**(19,427)**
STATEMENT OF PROFIT OR LOSS				
Current tax at 30 % on the taxable profit for the year	217,539	137,596	216,699	137,596
Deferred tax credit	(31,590)	(5,830)	(31,590)	(5,830)
	185,949	**131,766**	**185,109**	**131,766**
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	216,696	151,481	456,588	351,363
Tax at applicable rate of 30%	65,009	45,444	136,976	105,409
Tax effect on items not eligible for tax purposes	120,940	86,322	48,133	26,357
	185,949	**131,766**	**185,109**	**131,766**

12. SHARE CAPITAL

	GROUP & COMPANY	
	2015 KShs'000	2014 KShs'000
Authorised: 71,181,000 ordinary shares of KShs.5 each (2014; 40,000,000 ordinary shares of KShs.5 each)	355,905	200,000
Issued and fully paid: 71,181,000 (2014: 23,727,000) ordinary shares of KShs.5 each	355,905	118,635
At 1 January	118,635	118,635
Bonus issues (2 shares for every share held)	237,270	-
At 31 December	355,905	118,635

The Company allotted 47,454,000 ordinary shares of KShs5 each in the proportion of 2 ordinary shares for every 1 ordinary share then held through capitalisation of retained earning with the new shares ranking pari passu in all respects with the existing issued ordinary shares of the Company to the shareholders registered at the close of business on 24 June 2015.

13. RESERVES

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	87,803	101,693	128,179	142,069
Foreign currency translation reserve	13,325	9,831	-	-
Retained earnings	815,575	1,036,998	1,515,959	1,522,113
	996,877	**1,228,696**	**1,724,312**	**1,744,356**

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

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

The foreign currency 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.

14. DIVIDENDS

	GROUP & COMPANY 2015 KShs'000	2014 KShs'000
Final dividend for 2014 KShs1.75 per share (2013 - KShs. 1.25 per share)	**41,522**	**41,522**
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares KShs0.60 per share (2014 - KShs1.75 per share)	**42,709**	**41,522**

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

(ii) Payment of dividend is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders respectively.

15. DEFERRED TAX (ASSET)/LIABILITY

Movements in deferred tax during the year were as follows:

Year ended 31 December 2015	Balance at 1 January KShs'000	Statement of Profit or Loss KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Accelerated capital allowances	57,777	(10,844)	-	46,933
Unrealised exchange loss	(2,662)	(4,318)	-	(6,980)
Unrealised exchange gain		6,532		6,532
Revaluation reserve	41,624	-	12,731	54,355
Allowance for doubtful debts	(65,444)	722	-	(64,722)
Provisions for staff leave	(12,131)	(1,885)	-	(14,016)
Provision for bonus accrual	-	(11,400)	-	(11,400)
Provision for obsolete inventories	(5,649)	(11,508)		(17,157)
Provision for rebates	(8,590)	1,112	-	(7,478)
	4,925	**(31,589)**	**12,731**	**(13,933)**
Year ended 31 December 2014				
Accelerated capital allowances	55,545	2,232	-	57,777
Unrealised exchange loss	-	(2,662)	-	(2,662)
Revaluation reserve	45,791	-	(4,167)	41,624
Allowance for doubtful debts	(45,147)	(20,297)	-	(65,444)
Provisions for staff leave	(9,294)	(2,837)	-	(12,131)
Provision for bonus accrual	(18,834)	18,834	-	-
Provision for obsolete inventories	(13,139)	7,490	-	(5,649)
Provision for rebates	-	(8,590)	-	(8,590)
	14,922	**(5,830)**	**(4,167)**	**4,925**

15. DEFERRED TAX (ASSET)/LIABILITY (continued)

No provision has been made for a deferred tax asset relating to the subsidiaries amounting KShs165,628,537 (2014 - KShs 208,778,745 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 KShs499,655,875 (2014 - KShs380,732,063) 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

16. BANK OVERDRAFT

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Bank overdraft	160,840	310,657	160,838	297,395

The bank overdraft facility is to the extent of: Kenya Commercial Bank Limited (KCB) - KShs200 million and USD 200,000 and Commercial Bank of Africa (CBA) - KShs110 million. The KCB and CBA facilities are secured by debenture of KShs571 million and USD 4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road. The Barclays Bank Limited overdraft facility is unsecured.
The weighted average interest rate on the overdraft at year-end was 14.41% (2014: 14%). The bank overdrafts are reviewed annually and payable on demand.

17. BANK LOAN

	GROUP & COMPANY	
	2015	2014
	KShs'000	KShs'000
Due within 1 year	**305,755**	**264,104**
Due after 1 year	**209,903**	**-**

The amount due within one year relates to post import financing from Kenya Commercial Bank Limited and Commercial Bank of Africa for a period not exceeding 3 months and are secured pari-passu by debenture of KShs571 million and USD4.2 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.
The weighted average interest rate on the loan at year-end was 9% (2014 - 9%). The long term loan relates 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 N.o Kisumu/Ojola/4790. The interest on the term loan is 14.41% and the facility shall be repaid in 126 months consecutive monthly instalments inclusive of interest and other charges.

18. SHORT TERM NOTES

	GROUP & COMPANY	
	2015	2014
	KShs'000	KShs'000
Amounts falling due within one year	650,989	610,253

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

19. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Amounts falling due within one year				
Trade payables	1,353,128	1,036,474	1,212,379	955,218
Other payables	68,365	62,200	54,727	54,652
Accruals	167,712	66,630	148,518	53,801
	1,589,205	**1,165,304**	**1,415,624**	**1,063,671**

Terms and conditions of the above financial liabilities:

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

20. REVENUE

The following revenue arose from sale of goods:

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Decorative paints	5,388,860	5,056,160	5,235,849	4,914,640
Industrial paints	868,511	620,502	726,334	591,274
Automotive paints	359,043	232,401	305,620	219,414
Adhesives	120,694	129,998	117,421	79,581
	6,737,108	**6,039,061**	**6,385,224**	**5,804,909**

21. COST OF SALES

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Raw materials	3,661,718	3,368,408	3,570,512	3,321,222
Salaries and wages	129,403	128,622	121,869	118,597
Depreciation on plant and machinery	32,180	30,827	24,847	23,673
Machinery repairs and maintenance	63,139	52,447	59,180	52,065
Fuel, water and electricity	21,509	22,999	14,797	19,323
Safety & environmental costs	29,017	27,847	28,691	27,847
Consultancy technical	2,608	2,713	2,608	2,713
Transport costs	7,373	17,336	7,347	7,493
Factory rent	1,511	2,343	-	-
Others	8,035	12,254	6,578	4,899
	3,956,493	**3,665,796**	**3,836,429**	**3,577,832**

22. OTHER INCOME

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Gain on disposal of property and equipment	518	3,506	-	1,540
Interest income	2,184	2,429	2,181	2,429
Miscellaneous income	55,695	60,585	47,047	59,025
Operating lease revenue	14,997	13,776	11,480	10,615
Doubtful debts write-back	75,719	41,433	75,007	41,233
Forex exchange gain	50,991	11,789	43,714	3,239
Surcharge sales	33,850	10,879	33,850	10,879
	233,954	**144,397**	**213,279**	**128,960**

23. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs (note 26)	873,778	706,265	745,558	606,292
Depreciation of property and equipment	110,753	89,505	91,977	75,142
Auditors' remuneration	10,475	9,267	5,500	5,150
Directors' emoluments:				
As directors	9,694	7,038	9,694	7,038
As executives	100,826	93,507	100,826	93,507
Legal and professional fees	33,579	47,874	26,235	19,060
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	13,325	11,186	12,319	10,784
Insurance	38,545	32,242	33,864	25,930
Loss on disposal of property and equipment	907	-	750	-
Foreign exchange loss	265,393	41,153	141,750	35,369
Office expenses	78,280	69,568	57,974	68,739
Consultancy fees	19,041	29,073	18,998	26,540
Computer costs	50,122	30,541	49,294	29,828
Travel	37,156	48,094	26,599	42,081
Maintenance, subscriptions and donations	14,321	14,952	12,506	13,359
Bank charges	10,999	9,147	9,503	7,493
Others	16,708	20,410	13,727	9,414
	1,684,167	**1,260,087**	**1,357,339**	**1,075,991**

24. SELLING AND DISTRIBUTION

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Transport	196,650	192,813	158,767	162,602
Advertising and promotion	442,103	526,214	391,429	437,302
Inventory write-downs	40,774	21,911	38,368	19,481
Allowance for bad debts	98,985	114,286	73,806	108,890
Bad debts written off during the year	5,334	567	1,050	49
Depot expenses	169,774	158,625	124,739	106,971
Others	4,552	3,490	4,455	5,810
	958,172	**1,018,206**	**792,614**	**841,105**

25. FINANCE COSTS

	GROUP		COMPANY	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loan and overdraft	48,598	41,184	48,598	40,874
Interest on short term note	106,935	46,704	106,935	46,704
	155,533	**87,888**	**155,533**	**87,578**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

26. STAFF COSTS

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Salaries and wages	692,879	562,663	590,787	484,499
Defined contribution plan	8,241	6,937	1,057	1,023
Medical benefits	11,543	5,017	7,001	3,427
Insurance	71,562	49,844	68,954	49,318
Staff general costs	58,373	57,381	50,035	50,867
Training and development	31,180	24,423	27,724	17,158
	873,778	706,265	745,558	606,292

27. PROFIT BEFORE TAX

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
The profit before tax is stated after charging: -				
Depreciation of property, plant & equipment	142,934	119,927	116,824	98,814
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	13,325	11,189	12,319	10,784
Directors emoluments:				
As directors	9,694	7,038	9,694	7,038
As Executives	100,826	93,507	100,826	93,507
Auditors' remuneration	10,475	9,267	5,500	5,150
Loss on disposal of property, plant and equipment	907	-	750	-
Finance costs	155,533	87,888	155,533	87,578
Foreign exchange loss	265,393	41,153	141,750	35,369
And after crediting: -				
Interest income	2,183	2,429	2,181	2,429
Operating lease income	14,997	13,776	11,480	10,615
Gain on disposal of property, plant and equipment	-	3,506	-	1,540
Forex exchange gain	50,991	11,789	43,714	3,239

28. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Net profit attributable to ordinary shareholders	30,748	19,715	271,479	219,597
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. The Company increased its issued share capital during the year from 23,727,000 to 71,181,000 shares by allotting 47,454,000 ordinary shares of KShs5 each in the proportion of 2 ordinary shares for every 1 ordinary share then held through capitalisation of retained earnings. The basic earnings per share presented for prior year has been adjusted retrospectively.

There were no potentially dilutive shares as at 31 December 2015 and as at 31 December 2014.

29. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Cash and cash equivalents	108,468	138,525	78,947	92,787
Bank overdraft (Note 16)	(160,840)	(310,657)	(160,838)	(297,395)
	(52,372)	**(172,132)**	**(81,891)**	**(204,608)**

30. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

(i) AS LESSEE:
The company made upfront payments to acquire leasehold interests in land as disclosed in Note 5 to the financial statements. Therefore, there are no future minimum lease payments due to third parties under non-cancellable operating leases

(ii) AS LESSOR:
The Group has entered into commercial property leases on its surplus office and manufacturing building and certain items of machinery. These non-cancellable leases have remaining terms of two years three months. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market condition.
The total future minimum rentals receivable from third parties under non-cancellable operating leases is as follows:

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Within 1 year	15,301	14,462	12,037	11,198
Within 5 years	14,534	29,833	10,457	22,494
	29,835	44,295	22,494	33,692

b) Contingent Liabilities

The Group had no contingent liabilities as at year end (2014: Nil).

c) Legal matters

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

d) The Group capital commitments as at year end were KShs28 million for the construction of a factory in Kisumu. (2014 - 300 million)

30. COMMITMENTS AND CONTINGENCIES (continued)

e) Bank facilities

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Letters of credit	204,600	181,200	204,600	181,200
Guarantees given by bankers	20,000	20,000	20,000	20,000
	224,600	**201,200**	**224,600**	**201,200**

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Loans and receivables				
Cash and cash equivalents	108,468	138,525	78,947	92,787
Trade and other receivables	1,166,440	1,109,292	797,843	858,014
Amounts due from related companies	309,514	222,483	1,428,411	984,170
	1,584,422	**1,470,300**	**2,305,201**	**1,934,971**
Financial liabilities at amortised cost				
Bank overdraft	160,840	310,657	160,838	297,395
Bank loans	515,658	264,104	515,658	264,104
Short term notes	650,989	610,253	650,989	610,253
Amounts due to related companies	216,910	150,240	261,332	189,549
Trade and other payables	1,421,493	1,098,674	1,267,106	1,009,870
	2,965,890	**2,433,928**	**2,855,923**	**2,371,171**

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 review and agree policies for managing each of these risks which are summarised below.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 note. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's exposure to the risks associated with changes in interest rates on bank overdraft is minimal as its borrowings are pegged to interest rates that were agreed in advance and do not change regularly. Interest on the Company's loans is charged at the banks' base rate prevailing from time to time (minus 3% for CBA KShs account, plus 2% for USD account, for KCB minus 2% for KShs account and USD at base rate). Currently, the CBA and KCB KShs base lending rates are 17%. CBA USD base lending rate is 6.25% and KCB 9%. The interest on the short-term note is at treasury bills interest rate plus 1.5%.

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

		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
2015	Increase by 2%	19,135	13,394	6,182	4,327
	Decrease by 2%	(19,135)	(13,394)	(6,182)	(4,327)
2014	Increase by 2%	17,487	12,241	17,487	12,241
	Decrease by 2%	(17,487)	(12,241)	(17,487)	(12,241)

Fair values of financial instruments

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

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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The amount that best represents the Group's and company's maximum exposure to the credit risk as at 31 December 2015 is made up as follows:

GROUP

As at 31 December 2015	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 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	820,568	101,566	449,318	(266,395)	1,105,057
Other receivables	9,257	1,753	50,373	-	61,383
Amount due from related party	36,126	6,835	266,553	-	309,514
Bank balances and cash	108,468	-	-	-	108,468
	974,419	110,154	766,244	(266,395)	1,584,422

COMPANY

As at 31 December 2015	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 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	667,861	60,107	257,435	(215,743)	769,660
Other receivables	5,014	1,689	21,480	-	28,183
Amount due from related party	82,570	25,365	1,320,476	-	1,428,411
Bank balances and cash	78,947	-	-	-	78,947
Deposit for shares	-	-	204,028	-	204,028
	834,392	**87,161**	**1,803,419**	**(215,743)**	**2,509,229**

The amount that best represents the Group's and company's maximum exposure to the credit risk as at 31 December 2014 is made up as follows:

GROUP:

As at 31 December 2014	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 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	778,649	81,149	401,628	(245,147)	1,016,279
Other receivables	42,853	-	50,160	-	93,013
Amount due from related party	62,563	4,885	155,035	-	222,483
Bank balances and cash	138,525	-	-	-	138,525
	1,022,590	**86,034**	**606,823**	**(245,147)**	**1,470,300**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

COMPANY:

As at 31 December 2014	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 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	716,582	33,863	277,130	(218,157)	809,418
Other receivables	255	-	48,341	-	48,596
Amount due from related party	135,784	39,918	808,468	-	984,170
Bank balances and cash	92,787	-	-	-	92,787
Deposit for shares	-	-	204,028	-	204,028
	945,408	73,781	1,337,967	(218,157)	2,138,999

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	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Assets in foreign currencies				
Trade and other receivables	12,154	53,620	8,667	53,620
Cash and bank	11,344	9,946	7,412	-
Foreign currency assets	23,498	63,566	16,079	53,620
Liabilities in foreign currencies				
Bank overdraft	(23,535)	(47,899)	(23,533)	(46,615)
Payables	(731,772)	(459,429)	(687,939)	(450,811)
Short term note	(305,755)	(54,634)	(305,755)	(54,634)
Bank loan	-	(264,104)	-	(264,104)
Foreign currency liabilities	(1,061,062)	(826,066)	(1,017,227)	(816,164)
Net foreign currency (liability)/asset position	**(1,037,564)**	**(762,500)**	**(1,001,148)**	**762,544)**

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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

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

		GROUP		COMPANY	
USD		**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
2015	Increase in US$ by 4%	41,503	29,052	40,046	28,032
	Decrease in US$ by 4%	(41,503)	(29,052)	(40,046)	(28,032)
2014	Increase in US$ by 4%	30,500	21,350	30,502	21,351
	Decrease in US$ by 4%	(30,500)	(21,350)	(30,502)	(21,351)

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

GROUP

	<30 days days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2015							
Financial Liabilities							
Bank overdraft	(160,840)	-	-	-	-	-	(160,840)
Bank loan	(101,314)	(116,892)	(56,790)	-	(30,759)	(408,339)	(714,094)
Short term note	(179,191)	(103,219)	(284,240)	(25,398)	(58,941)	-	(650,989)
Trade payables	(955,004)	(52,385)	(159,995)	(10,920)	(174,824)	-	(1,353,128)
Other payables	(35,480)	(32,885)	-	-		-	(68,365)
Amounts due to related party	-	-	(2,423)	-	(214,487)	-	(216,910)
Total financial liabilities	**(1,431,829)**	**(305,381)**	**(503,448)**	**(36,318)**	**(479,011)**	**(408,339)**	**(3,164,326)**

GROUP

	<30 days days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2014							
Financial Liabilities							
Bank overdraft	(310,657)	-	-	-	-	-	(310,657)
Interest bearing loans	(70,988)	(130,526)	(12,705)	(20,495)	(29,390)	-	(264,104)
Short term note	(213,006)	(149,068)	(132,806)	(106,735)	(8,638)	-	(610,253)
Trade payables	(379,256)	(311,360)	(345,858)	-	-	-	(1,036,474)
Other payables	(62,200)	-	-	-		-	(62,200)
Amounts due to related parties	(150,240)	-	-	-	-	-	(150,240)
Total financial liabilities	**(1,186,347)**	**(590,954)**	**(491,369)**	**(127,230)**	**(38,028)**	**-**	**(2,433,928)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

COMPANY

	<30 days days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2015							
Financial Liabilities							
Bank overdraft	(160,838)	-	-	-	-	-	(160,838)
Bank loan	(101,314)	(116,892)	(56,790)	-	(30,759)	(408,339)	(714,094)
Short term note	(179,191)	(103,219)	(284,240)	(25,398)	(58,941)	-	(650,989)
Trade payables	(902,587)	(42,746)	(139,192)	-	(127,854)	-	(1,212,379)
Other payables	(17,440)	(37,287)	-	-	-	-	(54,727)
Amounts due to related parties	(2,573)	(932)	(3,125)	(12,387)	(242,315)	-	(261,332)
Total financial liabilities	**(1,363,943)**	**(301,076)**	**(483,347)**	**(37,785)**	**(459,869)**	**(408,339)**	**(3,054,359)**

COMPANY

	<30 days days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
At 31 December 2014							
Financial Liabilities							
Bank overdraft	(297,395)	-	-	-	-	-	(297,395)
Interest bearing loan and borrowings	(70,988)	(130,526)	(12,707)	(20,493)	(29,390)	-	(264,104)
Short term note	(213,006)	(149,068)	(132,806)	(106,735)	(8,638)	-	(610,253)
Trade payables	(377,336)	(232,592)	(345,290)	-	-	-	(955,218)
Other payables	(19,454)	(35,198)	-	-	-	-	(54,652)
Amounts due to related party	(189,549)	-	-	-	-	-	(189,549)
Total financial liabilities	**(1,167,728)**	**(547,384)**	**(490,803)**	**(127,228)**	**(38,028)**	**-**	**(2,371,171)**

32. FAIR VALUE OF ASSETS AND LIABILITIES

a) Comparison by class of the carrying amount 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 to 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, amount due from related companies, cash and cash equivalents, trade payables, short term notes, interest bearing loans and borrowings and amounts due to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

b) Fair value hierarchy

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

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

GROUP AND COMPANY

31 December 2015

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
GROUP				
Assets				
Property, plant and equipment	-	-	639,454	639,454
LIABILITY				
Bank loan	-	(104,900)	-	(104,900)
COMPANY				
Assets				
Property, plant and equipment	-	-	602,653	602,653
LIABILITY				
Bank loan	-	(104,900)	-	(104,900)

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

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

The fair values of property, plant and equipment presented in the table above are as at 1 December 2011, the date of valuation. There are no significant differences between the fair values as at the valuation date and the current carrying amounts.

As at 1 December 2011, the properties' fair values were based on valuations performed by Real Appraisal Limited, accredited independent valuers.

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.

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

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

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

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Operational risk

- 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. 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.
The paints segment manufactures and sells paints, decorating sundries, PVA emulsion and alkyd resins producer.
The adhesives segment manufactures and sells adhesives.
Transfer prices between the operating segments are set on commercial terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.
Operating Segments
The Group's business is currently organised in two divisions, paint and adhesives which form the basis on which it reports its primary segment information.
Segment information is as presented below.

31 December 2015	Paints	Adhesives	Elimination	Total
Assets and Liabilities	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Segment assets	5,635,992	68,765	(1,165,609)	4,539,148
Deposit for shares	204,028	-	(204,028)	-
Investment in subsidiary	48,512	-	(48,512)	-
Total assets	5,888,532	68,765	(1,418,149)	4,539,148
Segment liabilities	4,347,338	4,637	(1,165,609)	3,186,366

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

33. OPERATING SEGMENT INFORMATION (continued)

Other segment information	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Capital expenditure - property, plant and equipment and intangible assets	410,579	13	-	410,592
Depreciation and amortisation	151,911	4,196	-	156,107
Revenue				
Sales to external customers	6,616,414	120,694	-	6,737,108
Inter segment sales	538,109	581	(538,690)	-
Other income	229,974	3,980	-	233,954
Results				
Operating results	218,512	(1,816)	-	216,697
Income tax expense	(185,949)	-	-	(185,949)
Profit for the year	**32,563**	**(1,816)**	**-**	**30,748**

31 December 2014	**Paints**	**Adhesives**	**Elimination**	**Total**
Assets and Liabilities	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Segment assets	4,584,737	71,558	(803,481)	3,852,814
Deposit for shares	204,028	-	(204,028)	-
Investment in subsidiary	48,512	-	(48,512)	-
Total assets	4,837,277	71,558	(1,056,021)	3,852,814
Segment liabilities	3,303,349	5,615	(803,481)	2,505,483

Other segment information	**Paints KShs '000**	**Adhesives KShs '000**	**Elimination KShs '000**	**Total KShs '000**
Capital expenditure - property, plant and equipment and intangible assets	339,829	-	-	339,829
Depreciation and amortisation	126,532	4,581	-	131,113
Revenue				
Sales to external customers	5,954,404	84,657		6,039,061
Inter segment sales	356,974	7,489	(364,463)	-
Other income	141,045	3,352	-	144,397
Results				
Operating results	148,250	3,231	-	151,481
Income tax expense	(131,766)	-	-	(131,766)
Profit for the year	16,484	3,231	-	19,715

33. OPERATING SEGMENT INFORMATION (continued)

Revenue from external customers	2015 KShs '000	2014 KShs '000
Kenya	6,328,625	5,357,887
Uganda	249,749	397,634
Tanzania	79,612	162,401
Burundi	4,621	9,652
Mozambique	5,103	-
Rwanda	28,199	42,908
Somali	10,198	18,060
South Sudan	27,238	46,157
DRC	3,763	4,362
Total revenue	**6,737,108**	**6,039,061**

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	2015 KShs '000	2014 KShs '000
Kenya	1,129,920	897,835
Uganda	45,563	39,773
Tanzania	48,290	43,515
Rwanda	7,934	5,048
	1,231,707	**986,171**

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

34. STATUS OF THE SUBSIDIARY COMPANIES

Regal Paints Uganda Industries Limited

The company incurred a loss of KShs35 million during the year ended 31 December 2015 (2014 - KShs70 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs282 million (2014 - KShs256 million). In addition, the company's accumulated losses stood at KShs301 million as at 31 December 2015 (2014 - KShs286 million) while its total liabilities exceeded total assets by KShs236 million (2014 - KShs217million).

Crown Paints Tanzania Limited

The company incurred a loss of KShs 199 million during the year ended 31 December 2015 (2014 - KShs125 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs340 million (2014 - KShs149 million). In addition, the company's accumulated losses stood at KShs323 million as at 31 December 2015 (2014 - KShs140 million) while its total liabilities exceeded total assets by KShs291 million (2014 - KShs105 million).

34. STATUS OF THE SUBSIDIARY COMPANIES (continued)

Crown Paints Rwanda Limited

The company incurred a loss of KShs4.5 million during the year ended 31 December 2015 (2014 - KShs8.3 million) and, as of that date, the company's current liabilities exceeded its current assets by KShs20 million (2014 - KShs12 million). In addition, the company's accumulated losses stood at KShs12.8 million as at 31 December 2015 (2014 - KShs8.3 million) while its total liabilities exceeded total assets by KShs12 million (2014 - KShs7 million).

Crown Paints Allied Industries Limited

The company incurred a loss of KShs1.8 million during the year ended 31 December 2015 (2014 - Profit KShs3.2 million) and, as of that date, the company's current assets exceeded its current liabilities by KShs62 million (2014 - KShs60 million). However, the company's accumulated losses stood at KShs70 million as at 31 December 2015 (2014 - KShs68 million) while its total liabilities exceeded total assets by KShs60 million (2014 - KShs 58 million).

The conditions detailed above in respect of the four subsidiaries may cast significant doubt on the group's ability to continue as a going concern. Further, the subsidiaries rely on the parent company for provision of working capital and their ability to continue as a going concern depends on the continued support they receive from the parent company. The parent company has confirmed its commitment to continue giving financial support to the subsidiaries, and has issued an undertaking in this respect to each of the subsidiaries. The undertaking affirms the parent company's commitment to continue providing sufficient financial support, if necessary, to enable the subsidiaries 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.

These conditions give rise to a material uncertainty, which may cast significant doubt about the company's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

35. CAPITAL RISK MANAGEMENT

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

35. CAPITAL RISK MANAGEMENT (continued)

	2015 KShs'000	2014 KShs'000
Share capital	355,905	118,635
Share premium	80,174	80,174
Retained earnings	815,575	1,040,748
Equity	1,251,654	1,239,557
Total borrowings	1,166,647	874,358
Less: cash and cash equivalents (note 29)	52,371	172,132
Net debt	1,219,018	1,046,490
Total capital	2,470,672	2,282,297
Gearing ratio	49.34%	45.85%

36. INCORPORATION

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

37. EVENTS AFTER THE REPORTING DATE

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

NOTES

NOTES

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

PROXY FORM
CROWN PAINTS KENYA LIMITED

I/We ____

of ____

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

____

of ____

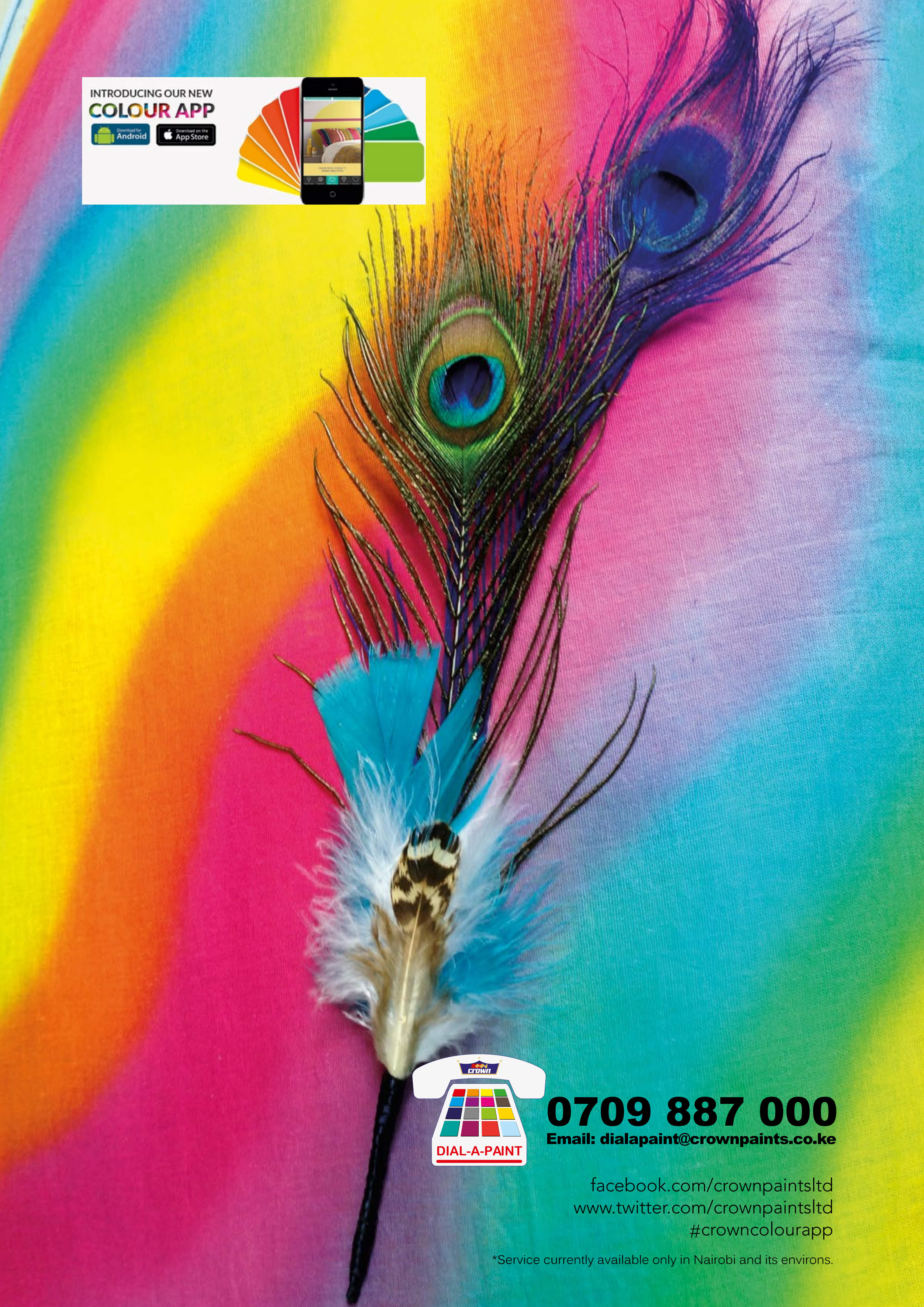
or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Fifty Ninth Annual General Meeting of the Company to be held on 14 June 2016 and at any adjournment thereof.

Signed/Sealed this____________ day of ___________________________ 2016

Notes:

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

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