2022 ANNUAL REPORT

AND FINANCIAL STATEMENTS

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Eco Friendly, Non toxic and High quality water-based paint with anti mould, anti fungal capabilities offering a washable high sheen finish.

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Vesta Gloss
Oil based economical interior and exterior paint that gives a smooth, high gloss washable & stain resistant finish.

Covermatt
High opacity Trade grade copolymer emulsion paint. Has superior whiteness with long lasting colour stability.

Ultraguard Silicone
Interior & Exterior topcoat with 10 year warranty. Offers excellent durability, high water repellence with long term colour retention.

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Ruff n Tuff
Toughest premium interior & exterior textured finish paint in more than 6000 colours that provides excellent water proof finish.

Permaplast
Premium quality exterior emulsion paint for protection from severe tropical weather, UV, mould, fungus & algae with good hiding power.

Undercoat Emulsion
Superior interior & exterior first sealing coat on various substrates with excellent moisture and alkali resistance.

Vesta Emulsion
Economical water-based paint forinterior use. Offers value for money with good coverage and is durable.

Super Gloss & Eggshell Enamel
Highly washable topcoat for interior and exterior surfaces. Has excellent adhesion. Can withstand harsh tropical weather conditions.

Walplast Cement putty
Covers unevenness on walls, superior bonding to plaster for a flawless finish.

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FINANCIAL STATEMENTS:

Notice of the Annual General Meeting

Crown Paints Kenya Plc
(the Company)

Notice of the 66th Annual General Meeting to the shareholders of Crown Paints Kenya Plc
In accordance with the provisions of the Companies Act, No. 17 of 2015 as amended by the Business Laws (Amendment) (No. 2) Act, 2021, NOTICE IS HEREBY GIVEN in accordance with Article 77 of the Company's Articles of Association that the 66th Annual General Meeting of the Company will be held virtually at 11.00 am on Tuesday, 27th June 2023 to conduct the business set out below:

All resolutions will be conducted by way of a Poll.

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

1. To adopt the audited financial statements for the year ended 31st December 2022 together with the Directors' and Auditors' Reports thereon.

2. To approve the Directors' Remuneration Report and the remuneration paid to the Directors for the year ended 31st December 2022 and to authorise Directors to fix the remuneration of the Non-Executive Directors.

3. To declare a final dividend of KShs 4/= per ordinary share for the financial year ended 31 December 2022 and to approve the closure of the Register of Members at 4.30 pm on 27th June 2023 for one day only.

4. To re-elect the following directors:
   a) Mr Nicholas Kathiari retires by rotation in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for re-election.
   b) In accordance with the provisions of section 769 of the Companies Act 2015, the following Directors, being members of the Board Audit and Risk Committee be elected individually to continue serving as members of the Committee:
      i) Mr Nicholas Kathiari
      ii) Mr Steven Oundo
      iii) Ms Alice Owuor

5. To re-appoint Messrs Ernst & Young LLP as the auditors of the Company for the Financial Year ending 31st December 2023 in accordance with Section 719 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for 2023.

BY ORDER OF THE BOARD

Conrad Nyukuri
Company Secretary
Date: 31st May 2023

Notice of the Annual General Meeting
(Continued)

NOTES

1. Shareholders wishing to participate in the meeting should register for the AGM online at **https://digital.candrgroup.co.ke** or by dialling USSD short code number ***483*136#** or via a link to the AGM Platform that will be sent to them via SMS and/or email and following the various registration prompts. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares at hand. For assistance shareholders should dial the following helpline number +254 20 8690360 from 8:00 a.m. to 4:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email **digital@candrgroup.co.ke.**

2. Registration for the AGM shall open on 19th June 2023 at 8.00 am and will close on 26th June 2023 at 12.00 noon. Shareholders will not be able to register after 26th June 2023 at 12.00 noon.

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

   a) Sending their written questions by email to **digital@candrgroup.co.ke or**
   b) Dialling the USSD code ***483*136#** and selecting the option (ask Question) on the prompts or
   c) Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM" Select "Q&A" option tab and submit questions in text box provided; or
   d) To the extent possible, physically delivering their written questions with a return physical address or email address to the offices of Custody and Registrars Services Ltd, Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi. Shareholders sending questions by email or delivering to C&R Group must provide their full details (full names, Shares Account Number//CDSC Account Number) when submitting their questions and clarifications. Also attach a copy of your ID/Passport.

4. Shareholders wishing to vote may do so by:

   a) Clicking the link to the AGM Platform; Select Attend Event; Select "CROWN PAINTS AGM"; Select "Voting" option tab and vote; or
   b) Dialling the USSD platform ***483*136#;** Use the menu prompts to Select the menu option for "Voting" and follow the various prompts regarding the voting process.

5. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to **proxy@candrgroup.co.ke** or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi so as to be received not later than Monday, 26th June 2023 at 11.00 a.m. When nominating a proxy, the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Monday, 26th June 2023 to allow time to address any issues.

Notice of the Annual General Meeting
(Continued)

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

7. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD ***483*136#** or on the AGM Platform.

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

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

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

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

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

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

CROWN PAINTS KENYA PLC SHARE REGISTER
PERIODIC REPORT FOR MARCH 2023

TOP 30 SHAREHOLDERS

Name	Shares_Held	%
CROWN PAINTS AND BUILDING PRODUCTS LTD	68,924,730	48.42%
BEAUMONT PROPERTIES LIMITED	31,919,474	22.42%
BARCLAY HOLDINGS LIMITED	26,006,177	18.27%
STANBIC NOMINEES LTD A/C NR1030823	2,280,000	1.60%
BARCLAY HOLDINGS LIMITED	1,553,054	1.09%
PATEL MAHENDRA DAHYABHAI	672,060	0.47%
OGANGO JOHN OKUNA	520,500	0.36%
SHAH MINESH MULCHAND	485,780	0.34%
ZAVERCHAND PUNJA WAREHOUSES LTD	422,400	0.30%
DSL NOMINEES LTD A/C ORCHARD ESTATE LTD	280,188	0.20%
SHAH BIJAL MULCHAND	229,624	0.16%
SHAH SAVITABEN VELJI RAICHAND	205,050	0.14%
ASSI SANTOKH SINGH	186,640	0.13%
SHAH SAROJBEN PRAFULKUMAR HEMRAJ	164,040	0.11%
SHAH NISHITKUMAR RAMNIKLAL	159,900	0.11%
PATEL RAMABEN SUMANTRAI PURSOTTAM	128,000	0.09%
ALI MOHAMED ADAM	126,060	0.09%
SUNTRA NOMINEES A/C 0351	125,000	0.09%
THAWER ABDULRASUL ISMAIL	110,550	0.08%
KUNGU PETER MWAURA	100,200	0.07%
SHAH PRAFULKUMAR HEMRAJ	99,780	0.07%
SANJAY GULABSI BHATIA & MRS HEMANTI SANJAY BHATIA	99,000	0.07%
SHAZIQUE ENTERPRISES LIMITED	94,710	0.07%
PARESH P UPADHYAY & HASMUKH A JOSHI	89,100	0.06%
SURESHCHANDRA RAICHAND SHAH	83,127	0.06%
SHAH JATIN KUMAR JUTHALAL	78,756	0.06%
RAJNIKANT NATHOOBHAI SHAH	77,220	0.05%
RAYANI SHAMSUDIN J. A. RAYANI & ROSINAKHANU S.	74,568	0.05%
MUCHINYI SILVESTER	69,600	0.05%
RUPAM GULABSI BHATIA	66,000	0.05%
Total Top 30 Shareholders	**135,431,288**	**95.13%**
Unselected 2,614 Shareholders	**6,930,712**	**4.87%**
Issued Shares	**142,362,000**	**100.00%**
Total Number of Shareholders	**2,644**	
Number of Shareholders at the CDSC	**1,931**	
Number of Shares Held at the CDSC	**113,378,007**	

CROWN PAINTS KENYA PLC SHARE REGISTER
PERIODIC REPORT FOR MARCH 2023 (continued)

DEMAT ANALYSIS	Shares	%
CDSC	113,378,007	79.64%
CERTIFICATED	28,983,993	20.36%
TOTAL	**142,362,000**	**100.00%**

ANALYSIS BY DOMICILE	Shares	%
DOMICILE		
FOREIGN COMPANIES	61,819,605	43.43%
FOREIGN INDIVIDUALS	602,127	0.42%
LOCAL COMPANIES	70,711,428	49.67%
LOCAL INDIVIDUALS	9,228,840	6.48%
TOTAL	**142,362,000**	**100.00%**

ANALYSIS BY VOLUME	Shares	%
VOLUME		
1 - 500	178,083	0.12%
501 - 5000	2,316,479	1.63%
5001 - 10000	1,096,005	0.77%
10001 - 100000	4,172,006	2.93%
100001 - 1000000	3,915,992	2.75%
>1000000	130,683,435	91.80%
TOTAL	**142,362,000**	**100.00%**

CHAIRMAN'S STATEMENT

Performance Review

In 2022 we continue to witness the impact of the Kenya economic blueprint that had prioritized affordable housing as one of its key pillars specifically among construction material suppliers in our decorative sector. The level of competition was intensified by the entry of new entrants who not only competed along the same product lines but introduced complementary products. While the expansion of new housing creates greater opportunities for us to expand our presence in the market, the stiff competition among players has necessitated us to relook at our strategy to enable us to remain competitive. Existing product innovation became key to ensure that our products remained top of the range as well as environmentally friendly.

We continue to acknowledge that a top of the range product is not the only factor to achieve greater performance, product knowledge by users plays another key role. Our engagement with other influencers to push the product have taken top gear. Our company has engaged our dealers on product display to ensure better customer experience (expanded showrooms), engagement with the construction industry professional architects, contractors and painters (via our Team-Kubwa platform).

For the East African region, our brand continues to expand, we have seen better performance from our subsidiaries in both volume and value. Tanzania continues to show bigger potential and we will lay greater emphasis on this market to provide us with greater market growth. Similar to the Kenyan market, we will continue to expand our presence by introducing new and innovative product solutions and also enhancing the customer experience. The other East African countries did not experience the economic turbulence that shook Kenya during 2022 supporting our decision to push for our greater presence in the region.

Our Community

Our company has been in Kenya since 1958. The brand "CROWN" has been part of the Kenya Building industry heritage and our customers have relied upon it to achieve their "color scheme" dream on their building walls. We can only say "ASANTE" for the trust that our customers have shown in our crown brand. The people (our communities) in the East Africa region have also welcomed us and given us an environment in which to operate from, we say "ASANTE PIA".

It is in this environment that our business has thrived, and in return, our company cannot forget to play its rightful role within this community. Our responsibility to ensure a sustainable environment is maintained is core in our day-to-day operation.

Our safety, health, environment & quality department not only ensures compliance with all regulatory measures but goes further to ensure our company complies with international standards.

Part of the community is our employees, (about 1,500) who work for our organization, and our business partners. Our company ensures that it meets its due responsibility on a timely basis to ensure that the processes and performance in our ways of working ensure a proud people.

Future Outlook

As a business, we must balance growth and profitability. For our region, the macro-economic indicators show uncertainty which will require us to focus on profitability and cash. Profitability is threatened by the shrinking margins as cost of production raise. To manage these margins, we must collaborate with our raw material suppliers to ensure we benefit from pricing initiatives & at the same time ensure that our systems and applications are cost competitive, efficient and effective in reducing waste.

As we push our product into the market, the purchasing power of our product final consumer has been eroded by inflation, hence requiring us to keep a close eye on our markets and selectively pursue growth opportunities. To understand and anticipate the customer expectations and their changing needs, we must hold innovation as a key mantra of our organization.

In conclusion, on my own behalf and that of the board, I want to thank you, our stakeholders, for your continued support throughout the year and many more to come. To my fellow board members, we thank you for the unending effort, dedication and support given to our company.

Mhamud Charania
Chairman
17th May 2023

BOARD OF DIRECTORS

LEFT TO RIGHT

MHAMUD CHARANIA
CHAIRMAN

PATRICK MWATI
FINANCE DIRECTOR

ALICE AWUOR
NON EXECUTIVE DIRECTOR

RAKESH RAO
GROUP CHIEF EXECUTIVE OFFICER

STEPHEN OUNDO
NON EXECUTIVE DIRECTOR

HUSSEIN RAMJI
VICE CHAIRMAN

NICHOLAS KATHIARI
NON EXECUTIVE DIRECTOR

GROUP CHIEF EXECUTIVE OFFICER STATEMENT

2022 was quite a challenging year as the country experienced a very competitive electioneering period and change of political regime. Besides the country was just recovering from the unprecedented challenges occasioned by COVID-19 pandemic which had totally disrupted the business order. The business operating environment was quite difficult as the wait and see attitude engulfed the country due to the elections. Businesses performed dismally as there was also low purchasing power. As a company, we continued to invest heavily particularly in technology to ensure quality end products that meet customer's need. During the period the company registered significant business growth of 12.7 percent in earnings after tax which was mainly attributed to higher revenues, climbing to KShs 11.4 billion in 2022 from KShs 10.7 billion in 2021. However, high cost of production trimmed our operating profit by five percent to KShs 1.07 billion. The depreciation of the Kenyan shilling against major world currency was a major challenge that led to high cost of importing raw materials. The industry is however, projected to register significant growth as the government embarks on a number of economic activities that will spur growth.

Business Environment & Performance

During the year under review the business environment was quite challenging as the country was in an election mood holding back key economic activities. However, after the general elections and peaceful political transition of power to new regime, the economy started to pick up slowly. During the year, the country's economic outlook, growth slowed down due to decline in domestic and external demand that were caused by inflation, increase in food and fuel import costs. The depreciation of the local currency against world's major currencies weighed down by high oil prices and hard-currency demand from sectors such as energy and manufacturing added ore strain on the business operating environment.

Crown Paints heritage goes back to over 60 years of operation, providing tailor-made solutions to the construction and retail segments of the market with innovative products, services and world-class after-sales support to maintain market leadership. The social and economic challenges that came with the general election last year led to dismal market performance. This affected operations as the cost of doing business went through the roof with the price of raw materials doubling due to constraints in the supply chain. The turbulence in the raw material market particularly as a result of the prolonged Russia-Ukraine conflict saw the group change tact by stocking raw materials to safeguard customers from unpredictable market prices.

On the taxation front, the government introduced Finance Act, 2022 which was largely aimed at enhancing revenue collection, promoting investments and bringing alignment to the current tax laws.

On performance, the group's turnover for the year ended 31 December 2022 grew by 6 percent to KShs 11.4 billion from KShs 10.7 billion in 2021. Similarly, the firm held off operating costs to post KShs 824 million profit for the year ended 31 December 2022 from KShs 731 million the previous period.

Digital strategy and Operational

After outbreak of COVID-19 pandemic in 2020, it became apparent that technology will play a very significant role in transacting business and bringing the world back to normal business. Growth of business was largely driven by innovative technologies which made it possible for manufacturers and suppliers to meet the growing demand of consumers. These technologies saw the emergence of innovations such as waterborne Epoxy (Floor) coatings, waterborne metal primers and topcoat high-solids coatings to keep business running.

GROUP CHIEF EXECUTIVE OFFICER
STATEMENT (continued)

Since the pandemic outbreak, digital transformation strategy became the nerve centre for Crown Paints by ensuring that products and services reach customers uninterrupted. The Nairobi Securities Exchange firm dominance with a market share of over 65 percent premium paint has an effective internal controls and efficiencies system when processing customer orders to enhance service delivery. The Board has invested in Research and Development division to ensure continuous innovation of products and services. The Board has enhanced Team Kubwa with entrepreneurship skills, Color Visualizer to differentiate surfaces, Crown Your Space to help customers with end-to-end, hassle-free solutions for the painting process as well as an effective call center to address any queries or suggestions, among other innovative services.

Our People and Communities

Crown Paints exists because of the communities it serves. During the period we entered into a strategic partnership with Kenya's low-cost airline Jambojet to explore business opportunities that impact communities we serve. Education and Environment are key areas of focus that Crown Paints contributes towards. Education plays a key role in empowering any community and over the years, the firm takes keen interest in identifying educational needs of communities they work with to offer support. Crown Paints takes pride in initiatives that goes a long way in transforming people's lives. Environmental conversation is another guiding principle and a key component of sound business performance.

During the year many Kenyans experienced drought and we partnered with the Red Cross to provide food donations to affected families in the affected regions. Our contribution impacted over 1,000 families. We provide quality products and services in a more responsible manner while caring for our natural environment.

Future Outlook

The country's economy is expected to register some significant growth after a tough business environment. The economic growth was sluggish due to low purchasing power as people prioritized only basic needs. However, as the new administration settled down to business, a number of projects were initiated to spur economic growth. There market experienced low cash flow due to the pressure on the Kenyan shilling leading to high inflation rate.

In 2023, we expect a spur in economic growth brought about by new programs being undertaken by the government to boost the economy. However, factors such as the high cost of raw materials particularly fuel is likely to slow down growth. Crown Paints with over 60 years of operation and most extensive dealer network in Kenya in both semi-urban and rural areas, including depots and Crown Décor World showrooms countrywide remains committed to pursue more growth.

The board will continue to offer leadership support to regional subsidiaries in Uganda, Tanzania and Rwanda to enhance double digit growth. As a listed company on the NSE the firm will continue to address the needs of all our stakeholders while ensuring the brand standards and dominance in the market are maintained.

The board of directors remains committed to ensuring that the business remains responsive to the needs of the communities in which it operates not only for business reasons but for the environmental and social purposes to achieve a sustainable business and economic growth. The management is also keen on nurturing and promoting talent within the organization. As we do this our commitment to meeting customers' needs through innovative products and services remain the ultimate goal.

Conclusion

In conclusion and most importantly, I want to extend my heartfelt appreciation to my fellow directors, shareholders, employees, customers and partners for their continued and solid support towards creating more value for our stakeholders. This has been an exciting journey and I look forward to your continued support to create more wealth and grow the business further not only in Kenya but the entire East African region.

Thank you and God bless you all.

Dr. Rakesh Rao,
Group Chief Executive Officer
17th May 2023

CSR
Activities

PAINTING OUR NATION THE COLOURS OF HOPE AND LOVE

Crown Paints is not just a leading paints company but is also renowned for giving back to our community. We have various social outreach programmes which include sponsoring local golf tournaments to support local talent development, food donation drives to help the less fortunate and art competitions to foster fun learning and creativity among students.

PAINTING KENYAN LIVES WITH COLOUR

As a truly Kenyan company, we support the well-being of local communities through several outreach programmes. Over the past few years, we have raised funds to support local talent and develop sports skills through the sponsorship of golf tournaments.

GIFTS OF LOVE: To spread love and goodwill on Valentine's Day 2022, we donated diapers to Cerebral Palsy Space (CEPAS). Founded in 2016, CEPAS supports parents of children with cerebral palsy.

CROWN YOUR ART: Crown Paints GCEO Dr Rakesh Rao poses with Crown Your Art Winners. The competition had primary school students submit artworks. After careful selection, final artworks from the top ten nominees were uploaded on the microsite for the public to vote for their favourite. Crown Your Art Grand Prize Winner Moses Khandi is from Misufini Primary School.

Redcross: November, 25th 2022, our team, led by our Vice Chairman, Mr. Hussein Ramji, positively impacted over 300 families affected by drought by donating foodstuffs to @redcrosske

We are constantly looking for new ways to bring colour into people's lives.

CORPORATE GOVERNANCE

Introduction

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

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

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

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

Governing Body of Crown Paints Kenya Plc

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

The Board of Directors

Crown does recognize and embrace the need of a diverse Board to ensure its success. The board does have leverage from the difference in thought, perspective, knowledge, skill and industry experience, which enriches the Board discussions and decision making. The Board has a mix of Executive and Non-Executive Director who have considerable expertise in their respective fields including competencies required in context of the company's businesses.

At Crown, the Board, is responsible for establishing the broad corporate policies and setting strategic direction while entrusting the day-to-day operations of the company to the executive management led by the Group Chief Executive Officer. The Board provides oversight so as to protect, preserve and promote the best interests of its shareholder and all stakeholders. To fulfill this role, each director exercise's his or her good faith in making business judgment to the best interests of Crown. The operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board.

The Board Charter defines the governance parameters within which the Board exists, sets out the Board authority and specific responsibilities to be discharged by the Board and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

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

Board Procedures and Flow of Information

The Board meets quarterly to review the performance of the company (financial results/statements, compliance report, regulatory developments, significant transactions and risk management) and any other proposal from the management. Additional meetings are held whenever necessary. In case of matters requiring urgent approval of the Board, resolutions are passed through circulation. The Chairman of the Board together with the Company Secretary determine the agenda for every meeting in consultation with the Chief Executive Officer. The Board has unrestricted access to all company-related information. The agenda for the meetings is circulated well in advance to the directors to ensure that sufficient time is provided to directors to prepare for the meeting. On need basis, company officials are invited to attend meetings of the Board and make presentations to the Board on matters including but not limited to the company's performance.

Responsibilities

Whilst the Chairman and the Chief Executive Officer are responsible for the profitable operations of the company, their roles are separate, with each having distinct and clearly defined duties and responsibilities. The Chairman is responsible for leadership of the board, for ensuring its effectiveness on all aspects of its role and for facilitating productive contributions of all directors. The Chairman also ensures that the interests of the company's shareholders are safeguarded and that there is effective communication with them. The Chief Executive Officer has overall responsibility for the day to day running of the business of the company and provides leadership to facilitate successful planning and execution of the company objectives and strategies as agreed upon by the board.

Independent non-executive directors' business relationship with the company

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

Composition of the Board

The Nomination and Remuneration Committee determines the composition of the Board based on the need and requirements of the company from time to time. It identifies the person as potential candidate, qualified to be appointed as director and recommends to the Board for their appointment. The Directors are then re-elected by the shareholders at the annual general meetings and are due for retirement by rotation in accordance with the company's Articles of Association. The current composition of the Board is given on page 27.

Board Committees

The Board has constituted various Committees with specific terms of reference. The committees of the Board consist of a balanced mix of non-executive and executive directors. The Board periodically reviews the composition and terms of reference of its committees to comply with any amendments/ modifications to the provisions relating to composition of Committees. Management, other Board members and outside service providers and experts may attend by invitation as circumstances dictate.

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

a) Audit and Risk Committee

The committee consists entirely of the independent non-executive directors as confirmed by the Board upon appointment. The Committee meets the Statutory Auditors and the Chief Internal Auditor independently without the presence of any members of the management at least once in a year. The Committee, within the scope of its assigned duties, is authorised to seek any information it requires from employees, Company officers and external parties. The members are deemed to be financially literate and have the requisite understanding, ability and experience to qualify as "audit committee financial experts" within the meaning set forth under the CMA code.

It reports to the Board and among its functions include:

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

b) Nomination and Remuneration Committee

This committee is chaired by an independent non-executive director. The committee meets at least once a year and frequently as required to carry out its duties. It is responsible for:

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

c) Special committees

The Board is mandated by the company's Articles of Association to form other ad hoc committees to deal with specific matters that may occur. These committees regularly report to the Board on their activities.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services is disclosed in Note 22, page 96 to the financial statements. No arrangements exist whereby a director could acquire company shares on beneficial terms.

Communication with Stakeholders

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

a. Publication of results

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

b. Website and news releases

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

c. Regulators

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

d. Shareholders

Letters and emails are sent to shareholders concerning, their dividends, annual general meetings and any other information affecting the company's state of affairs. The Board encourages full participation of shareholders at the AGM and at other general meetings. The shareholders are free to communicate at any time with the company's registrar.

FINANCIAL **STATEMENTS**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2022

PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

BANKERS

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

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

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

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

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

SOLICITORS

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

SECRETARY

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

REGISTRARS

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

AUDITORS

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors submit their report together with the audited financial statements for the year ended 31 December 2022, which show the state of the affairs of Crown Paints Kenya Plc ("the company") and Subsidiaries (together, "the group").

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public limited company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 25.

2. PRINCIPAL ACTIVITIES

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

3. GROUP RESULTS

The results for the year are set out on page 43.

4. COMPANY RESULTS

The results for the year are set out on page 47.

5. DIVIDENDS

Subject to approval by the shareholders, the directors recommend payment of a first and final dividend of KShs 4.00 per share totalling to KShs 569 million for the year ended 31 December 2022 (2021: KShs 4.00 per share totalling to KShs 569 million).

6. FINANCIAL STATEMENTS

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

7. RESERVES

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

8. DIRECTORS

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

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

9. BUSINESS REVIEW

In 2022 impact of the Kenya economic blueprint the "Big Four" where housing is one of its key pillars continued to be felt. This special attention to the provision of housing by the government attracted great interest in the construction sector. New entrants were attracted into the sector who not only competed along the existing product lines but introduced substitute products. This increased competition and new substitute products have put pressure on the performance of the group. The economic outlook for the region has also not been favorable especially for the Kenyan market. The cost of production has risen, affecting profitability as the margins have shrunk. This has in turn necessitated the company to relook at its strategy to enable it to remain competitive. A major shift has been made to existing product innovation to ensure that our products remain top of the range, affordable and as well environmentally friendly.

On the subsidiaries' performance, our Brand continues to expand, and we have seen better performance by the subsidiary companies both in terms of volume and value. Tanzania continued to show bigger potential and we will lay greater emphasis on this market to provide us with more market growth. Rwanda, though a smaller market than the rest of the East African markets maintained a stable performance compared to last year. In Uganda, Regal Paints made a milestone in its performance as it reported a profit for the year 2022.

As a group, like in the Kenyan market, we have continued to expand our presence in the other countries by introducing new and innovative product solutions and enhancing the customer experience. Of importance to note is that the other East African countries did not experience the economic turbulence that shook Kenya during 2022 supporting our decision to push for our greater presence in the region.

Performance Review

Despite the difficult year that 2022 was, we did deliver a balanced and sustainable result an indication of our capacity and resilience as a group.

Revenue was 6% higher to KShs 11.4 billion (2021: KShs 10.7billion) resulting from pricing initiatives, as volume growth was not significant. The cost of sales increased by 12% to KShs 7.1 billion (2021: KShs 6.4 billion) largely due to the increase in raw materials and other related costs. The operating income was lower by 5% at KShs 1.07 billion (2021: KShs 1.12 billion) as a result of lower volumes, cost of sales and other administrative /selling expenses costs inflation.

9. BUSINESS REVIEW (Continued)

Cash from operating activities decreased to an inflow of KShs 129 million (2021: inflow of KShs 889 million), mainly driven by increase in working capital and a lower profit for the period. Net cash from investing activities resulted in an outflow of KShs 261 million (2021: outflow of KShs 333 million).

The Board in fulfilling its responsibility under the good Corporate Governance code of conduct does review and provide guidance about how the corporate strategy aligns with risk and how to manage the risk. This ensures that appropriate systems for risk management are in place and comply with the law. Within the organization, the Board mandates the Chief Executive Officer to set and enforce clear lines of responsibility and accountability throughout.

Below are some of the risks;

TYPE	RISK	MITIGATION
Strategic:		
	Brand	• Ensure top customer service experience. • Company reputation management • Trademarks • High product quality • Publicity and community service
	Business sustainability	• Organization's policies, practices, and processes that factor in the economic, environmental, and societal issues.
	Business (De) growth – acquisitions and disposal	• Project assessment and use of related ratios.
Regulatory:		
	Legal	• Ensure adherence to established laws, both by central and local government and by regulatory bodies. • Knowledge of requirements by the laws • Legal and advisory department
	Compliance	• Comply with all rules and regulations.
	Taxation	• Adhere to the laid-out tax laws, keep proper records and pay taxes as and when due.
Operational:		
	Security	• Ensure systems, personnel and property security is in place.
	Business processes	• Ensure that all processes are guided by standard operating procedures.
	Sourcing	• Adequate supplier and contract management.

2023 Outlook

The group expects the ongoing macro-economic uncertainties to continue, and this will affect the volume and value growth. The group shall focus on margin management, cost reduction, and working capital management to survive the current turbulence.

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

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

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

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

11. TERMS OF APPOINTMENT OF THE AUDITOR

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

12. GOING CONCERN

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

By Order of the Board

Conrad Nyukuri

....

Secretary
26th April 2023

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

ii selecting suitable accounting policies and applying them consistently; and

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

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

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

Approved by the board of directors on 26th April 2023 and signed on its behalf by:

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

....
Patrick Mwati
Group Finance Director

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

The fees are approved by shareholders at Annual General Meetings.

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

The executive directors have employment contracts with the company.

The table below shows the executive and the non-executive directors' emoluments in respect of qualifying services for the year ended 31 December 2022. The aggregate directors' emoluments are disclosed in notes 9 and 22.

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

31 December 2022

Director	Role	Category	Gross earnings including pension contribution KShs	Annual bonus KShs	Sitting allowances KShs	Other benefits* KShs	Total KShs
Mhamud Charania	Chairman	Non- executive	6,109,392	-	-	727,392	6,836,784
Hussein H.R.J Charania	Vice- chairman	Executive	54,023,900	2,250,000	-	3,846,406	60,120,306
Rakesh K. Rao	Chief Executive Officer	Executive	45,020,900	1,875,000	-	12,092,362	58,988,262
Patrick M. Mwati	Finance Director	Executive	40,770,900	1,575,000	-	6,254,703	48,600,603
Stephen B. Oundo	Director	Non- executive	866,400	-	2,142,750	-	3,009,150
Nicholas Kathiari	Director	Non- executive	866,400	-	2,142,750	-	3,009,150
Alice Owuor	Director	Non- executive	866,400	-	2,142,750	-	3,009,150
Total			**148,524,292**	**5,700,000**	**6,428,250**	**22,920,863**	**183,573,405**

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

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

31 December 2021

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

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

EY
Building a better working world

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
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Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com
LLP/2015/52

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF CROWN PAINTS KENYA PLC AND SUBSIDIARIES

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Crown Paints Kenya Plc (the "company") and its subsidiaries (together, the "group") as set out on pages 42 to 114, which comprise the consolidated and separate statements of financial position as at 31 December 2022, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key audit matter	How our audit addressed the key matter
Impairment consideration of investment in the subsidiaries	
As disclosed in note 6 to the financial statements, the company has an investment in subsidiaries totalling KShs 1.8 billion, representing 21% of the total assets of the company. For the year ended 31 December 2022, an additional provision for impairment loss of KShs 75 million has been made with the total impairment amounting to KShs 847 million. The carrying amount of the investment in subsidiaries is KShs. 942 million. The subsidiaries have a history of making losses. Crown Paints Allied Industries Limited reported a loss in the current year, whereas Regal Paints Uganda, Crown Paints Rwanda Limited and Crown Paints Tanzania Limited were profitable in the current year. The summary of financial performance and financial position of the subsidiaries is further disclosed in note 34 to the financial statements. We focused on the impairment of the investment in the subsidiary companies due to their significance as discussed below: • The investment in subsidiaries is material to the financial statements of the company. • The subsidiaries have been loss making in the past and rely on the parent company for provision of working capital. We also focussed on the adequacy of the disclosures of investment in subsidiaries in Note 6 and status of the subsidiary companies in Note 34 to the financial statements, which are significant to the understanding of the amounts invested in the subsidiaries and the status of these subsidiaries. Given that significant judgement has been made by management in determining the expected future cash-inflows, discounting rate, control premium and terminal growth rate in perpetuity of the cashflows and the fact that the disclosures are important to the users' understanding of the financial statements we have considered this as a key audit matter.	We carried out procedures to understand management's process for identifying impairment triggers and considered management's assessment of impairment for individual investments. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. We evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation such as projections of sales volume and selling prices, gross margin and discount rates. We involved EY internal specialists, the Strategy and Transactions (SaT) team, in the review of the assumptions made by management. We evaluated management plans for future actions and whether the outcome of these plans is likely to improve performance in these subsidiaries and whether management's plans are feasible in the circumstances. We reviewed the parent company's commitment to continue supporting the subsidiaries financially. We also assessed the parent company's ability to continue supporting the subsidiaries, when called upon, by settling their obligations as and when they fall due. We assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with IFRS disclosure requirements.

Other Information

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

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

i) in our opinion, the information given in the report of the directors on pages 26 to 29 is consistent with the consolidated and separate financial statements.

ii) in our opinion, the auditable part of directors' remuneration report on pages 31 to 33 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Allan Gichuhi, Practising Certificate Number 1899.

Allen Gichuhi

……………………………………………………………………………

For and on behalf of Ernst & young LLP
Certified Public Accountants
Nairobi, Kenya
31 May 2023

Brand Finance®

Crown
If you like it... Crown it!

Your trust has made us the most reputable and fastest-growing brand in Kenya

Thank you

#16
MOST VALUABLE BRAND IN KENYA

70%
BRAND VALUE GROWTH 2022-2023

#1
MOST REPUTABLE BRAND IN KENYA

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	2022 KShs'000	2021 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	1,808,221	1,781,819
Right of use assets	5	405,421	280,386
Intangible assets	4	62,361	73,567
Deferred tax assets	14	18,757	-
		2,294,760	**2,135,772**
CURRENT ASSETS			
Inventories	7	3,744,929	3,322,838
Trade and other receivables	8	1,829,220	1,637,231
Amounts due from related companies	9(i)	658,912	231
Cash and bank balances	28	578,989	676,874
Current tax recoverable	10	98,024	34,402
		6,910,074	**5,671,576**
TOTAL ASSETS		**9,204,834**	**7,807,348**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	711,810	711,810
Reserves	12	2,977,537	2,718,379
		3,689,347	**3,430,189**
NON-CURRENT LIABILITIES			
Lease liability	30	286,266	115,160
Bank loans	16	114,879	215,612
Deferred tax liabilities	14	-	8,056
		401,145	**338,828**
CURRENT LIABILITIES			
Lease liability	30	138,244	177,456
Bank overdraft	15	507,715	15,053
Bank loans	16	912,888	302,209
Short term notes	17	798,263	527,574
Amounts due to related companies	9(ii)	39,617	67,326
Trade and other payables	18	2,710,012	2,921,832
Provisions	29 (b)	7,603	17,411
Current tax payable	10	-	9,470
		5,114,342	**4,038,331**
TOTAL EQUITY AND LIABILITIES		**9,204,834**	**7,807,348**

The financial statements were approved by the Board of Directors on 26th April 2023 and signed on its behalf by:

....

Rakesh K. Rao
Group Chief Executive Officer

....

Patrick Mwati
Group Finance Director

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 KShs'000	2021 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	11,388,808	10,733,180
COST OF SALES	20	(7,143,619)	(6,390,581)
GROSS PROFIT		**4,245,189**	**4,342,599**
OTHER INCOME	21	411,603	375,889
		4,656,792	**4,718,488**
EXPENSES: -			
Net allowance for expected credit losses third party	8	(41,629)	132,858
Net allowance for expected credit losses related parties	9	257,008	(92,365)
Administration and establishment	22	(2,223,006)	(2,010,016)
Selling and distribution	23	(1,360,185)	(1,441,280)
Finance costs	24	(216,110)	(183,285)
		(3,583,922)	**(3,594,088)**
PROFIT BEFORE TAX	26	**1,072,870**	**1,124,400**
TAX EXPENSE	10	(248,855)	(393,170)
PROFIT FOR THE YEAR		**824,015**	**731,230**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		4,591	12,604
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		4,591	12,604
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain on property, plant and equipment		-	120,697
Deferred income tax on revaluation		-	(11,680)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	109,017
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**4,591**	**121,621**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**828,606**	**852,851**
ATTRIBUTABLE TO:			
Owners of the parent		828,606	852,851
Non- controlling interest		-	-
		828,606	**852,851**
Basic and diluted earnings per share (KShs)	27	**5.79**	**6.85**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital (Note 11) KShs'000	Share premium (Note 12) KShs'000	Revaluation reserve (Note 12) KShs'000	Foreign currency translation reserve (Note 12) KShs'000	Retained earnings (Note 12) KShs'000	Total equity KShs'000
At 1 January 2021	355,905	80,174	43,493	89,506	1,340,432	1,909,510
Profit for the year	-	-	-	-	731,230	731,230
Other comprehensive income	-	-	109,017	12,604	-	121,621
Total comprehensive income	-	-	109,017	12,604	731,230	852,851
Issue of share capital	355,905	355,905	-	-	-	711,810
Transaction costs	-	(43,982)	-	-	-	(43,982)
Transfer of revaluation reserve on disposal	-	-	(359)	-	359	-
Transfer of excess depreciation - 2021	-	-	(34,680)	-	34,680	-
At 31 December 2021	**711,810**	**392,097**	**117,471**	**102,110**	**2,106,701**	**3,430,189**
At 1 January 2022	711,810	392,097	117,471	102,110	2,106,701	3,430,189
Profit for the year	-	-	-	-	824,015	824,015
Other comprehensive income	-	-	-	4,591	-	4,591
Total comprehensive income	-	-	-	4,591	824,015	828,606
Transfer of revaluation reserve on disposal	-	-	(2,511)	-	2,511	-
Transfer of excess depreciation - 2022	-	-	(37,253)	-	37,253	-
2021 final dividends (note 13)	-	-	-	-	(569,448)	(569,448)
At 31 December 2022	**711,810**	**392,097**	**77,707**	**106,701**	**2,401,032**	**3,689,347**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

OPERATING ACTIVITIES	Notes	2022 KShs'000	2021 KShs'000
Profit before tax		1,072,870	1,124,400
Adjustments for: -			
Depreciation on property, plant and equipment	3	231,459	199,443
Amortisation of intangible assets	4	25,500	20,799
Amortisation on right of use assets	5	182,847	155,895
Unrealised foreign exchange loss		8,968	25,553
Unrealised foreign exchange gain		(26,275)	(7,375)
Reversal of impairment on property, plant and equipment	3	-	(55,772)
Interest expense	24	216,110	183,285
Interest income	21	(7,757)	(8,433)
Allowance expected credit losses – third parties	8	51,608	96,762
Allowance for expected credit losses – related parties	9	(257,008)	103,642
Bad debts written off	23	6,343	50,755
Increase in leave accrual	21 & 25	-	7,349
Inventory write-down	7	3,203	42,988
Reversals of inventory write down	7	(2,169)	(22,555)
(Gain) / loss on lease termination	21 & 22	(206)	5,679
Provision for legal cases	29 (b)	(9,808)	9,496
Loss on disposal of property, plant and equipment	21 & 22	817	498
Operating profit before working capital changes		**1,496,502**	**1,932,409**
Increase in trade and other receivables		(249,940)	(414,554)
Increase in inventories		(423,125)	(1,434,873)
(Decrease) / increase in trade and other payables		(264,540)	782,453
Increase / (decrease) in amounts due from related parties		(401,673)	262
(Decrease) / increase in amounts due to related parties		(27,709)	23,307
Cash generated from operations		129,515	889,004
Income tax paid	10	(347,469)	(278,674)
Interest received	21	7,757	8,433
Interest paid		(173,609)	(142,338)
Net cash (used in) / generated from operating activities		**(383,806)**	**476,425**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(260,328)	(302,558)
Purchase of intangible assets	4	(14,186)	(34,449)
Proceeds on sale of property, plant and equipment		13,934	3,784
Net cash used in investing activities		**(260,580)**	**(333,223)**
FINANCING ACTIVITIES			
Proceeds from bank loans	16	787,404	1,192,951
Repayment of bank loans	16	(280,147)	(1,481,331)
Proceeds from short term notes	17	419,266	15,819
Repayments of short term notes	17	(182,928)	(33,563)
Proceeds from issue of shares		-	711,810
Transaction costs on issue of shares		-	(43,982)
Lease liability payments principal portion	30	(188,274)	(153,142)
Dividends paid on ordinary shares	13	(499,422)	-
Net cash generated from financing activities		**55,899**	**208,562**
Net (decrease) / increase in cash and cash equivalents		(588,487)	351,766
Cash and cash equivalents at the beginning of the year		661,821	303,848
Effect of exchange rate changes on cash and cash equivalents		(2,060)	6,209
Cash and cash equivalents at the end of the year	28	**71,274**	**661,821**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

ASSETS	Notes	2022 KShs'000	2021 KShs'000
NON CURRENT ASSETS			
Property, plant and equipment	3	1,498,684	1,469,273
Intangible assets	4	59,336	69,447
Investment in subsidiary companies	6	938,892	1,014,277
Right to use assets	5	338,167	167,391
Deferred tax assets	14	18,757	-
		2,853,836	**2,720,388**
CURRENT ASSETS			
Inventories	7	2,945,165	2,767,651
Trade and other receivables	8	1,411,077	1,316,334
Amounts due from related parties	9(i)	724,251	40,939
Current tax recoverable	10	74,668	-
Cash and bank balances	28	469,162	538,607
		5,624,323	**4,663,531**
TOTAL ASSETS		**8,478,159**	**7,383,919**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	711,810	711,810
Reserves	12	2,963,366	3,006,283
		3,675,176	**3,718,093**
NON CURRENT LIABILITIES			
Lease liability	30	277,621	104,419
Bank loans	16	76,377	150,046
Deferred tax liabilities	14	-	8,056
		353,998	**262,521**
CURRENT LIABILITIES			
Lease liability	30	71,463	73,208
Bank overdraft	15	495,877	8,297
Bank loans	16	807,885	246,724
Short term notes	17	798,263	527,574
Trade and other payables	18	2,192,037	2,430,994
Provisions	29 (b)	7,603	17,411
Tax payable	10	-	9,470
Amounts due to related parties	9(ii)	75,857	89,627
		4,448,985	**3,403,305**
TOTAL EQUITY AND LIABILITIES		**8,478,159**	**7,383,919**

The financial statements were approved by the Board of Directors on 26th April 2023 and signed on its behalf by:-

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

....
Patrick Mwati
Group Finance Director

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

COMPANY STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 KShs'000	2021 KShs'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	19	10,158,095	9,656,216
COST OF SALES	20	(6,327,454)	(5,687,963)
GROSS PROFIT		**3,830,641**	**3,968,253**
OTHER INCOME	21	249,468	231,245
		4,080,109	**4,199,498**
EXPENSES: -			
Net allowance for expected credit losses third party	8	(51,608)	79,500
Net allowance for expected credit losses related parties	9	74,927	(182,891)
Administration and establishment	22	(1,929,373)	(1,657,871)
Selling and distribution	23	(1,134,897)	(1,210,994)
Finance costs	24	(192,667)	(166,802)
Impairment loss on investment in subsidiaries	6	(75,385)	(5,000)
		(3,309,003)	**(3,144,058)**
PROFIT BEFORE TAX	26	**771,106**	**1,055,440**
TAX EXPENSE	10	(244,575)	(388,763)
PROFIT FOR THE YEAR		**526,531**	**666,677**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation gain on property, plant and equipment		-	38,935
Deferred tax on revaluation		-	(11,680)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	27,255
OTHER COMPREHENSIVE INCOME, NET OF TAX		**-**	**27,255**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**526,531**	**693,932**
Basic and diluted earnings per share (KShs)	27	**3.70**	**6.24**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital (Note 11) KShs'000	Share premium (Note 12) KShs'000	Revaluation reserve (Note 12) KShs'000	Retained earnings (Note 12) KShs'000	Total equity KShs'000
At 1 January 2021	355,905	80,174	84,219	1,836,035	2,356,333
Profit for the year	-	-	-	666,677	666,677
Other comprehensive income	-	-	27,255	-	27,255
Total comprehensive income	-	-	27,255	666,677	693,932
Issue of shares	355,905	355,905	-	-	711,810
Transaction costs	-	(43,982)	-	-	(43,982)
Transfer of revaluation reserve on disposal	-	-	(359)	359	-
Transfer of excess depreciation- 2021	-	-	(27,695)	27,695	-
At 31 December 2021	**711,810**	**392,097**	**83,420**	**2,530,766**	**3,718,093**
At 1 January 2022	711,810	392,097	83,420	2,530,766	3,718,093
Profit for the year	-	-	-	526,531	526,531
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	526,531	526,531
Transfer of revaluation reserve on disposal	-	-	(2,511)	2,511	-
Transfer of excess depreciation- 2022	-	-	(27,695)	27,695	-
2021 final dividends (note 13)	-	-	-	(569,448)	(569,448)
At 31 December 2022	**711,810**	**392,097**	**53,214**	**2,518,055**	**3,675,176**

CROWN PAINTS KENYA PLC AND SUBSIDIARIES
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

OPERATING ACTIVITIES	Notes	2022 KShs'000	2021 KShs'000
Profit before tax		771,106	1,055,440
Adjustments for:-			
Depreciation on property, plant and equipment	3	181,243	148,748
Amortisation of intangible assets	4	23,734	19,254
Amortisation on right of use assets	5	111,820	92,672
Unrealised exchange loss		12,685	4,450
Reversal of impairment on property, plant and equipment	3	-	(92,708)
Interest expense	24	192,667	166,802
Interest income	21	(934)	(581)
Allowance for expected credit losses - third parties	8	51,608	94,435
Allowance for expected credit losses - related parties	9	(74,927)	198,849
Bad debts written off	23	-	6,048
Impairment loss on investment in subsidiaries	6	75,385	5,000
Increase in leave accrual	25	-	7,367
Inventory write-downs	7	-	38,051
Reversals of inventory write down	7	(1,654)	(22,460)
(Gain) / loss on lease termination	21 & 22	(206)	5,679
Provision for legal cases	29(b)	(9,808)	9,496
Loss on disposal of property, plant and equipment	22	904	706
Operating profit before working capital changes		**1,333,623**	**1,737,248**
Increase in trade and other receivables		(146,351)	(337,446)
Increase in inventories		(175,860)	(1,329,797)
(Decrease) / increase in trade and other payables		(323,393)	692,232
Increase in amounts due from related parties		(608,385)	(64,087)
(Decrease) / increase in amounts due to related parties		(13,770)	39,726
Cash generated from operations		65,864	737,876
Income tax paid	10	(355,526)	(268,609)
Interest received	21	934	581
Interest paid		(150,166)	(125,586)
Net cash (used in) / generated from operating activities		**(438,894)**	**344,262**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(225,177)	(259,871)
Purchase of intangible assets	4	(13,623)	(32,543)
Proceeds from sale of property, plant and equipment		13,619	3,509
Net cash used in investing activities		**(225,181)**	**(288,905)**
FINANCING ACTIVITIES			
Proceeds from bank loans	16	627,020	1,125,075
Repayments of bank loans	16	(139,528)	(1,422,918)
Proceeds from short term notes	17	419,266	15,819
Repayments of short-term notes	17	(182,928)	(33,563)
Proceeds from issue of shares		-	711,810
Transaction costs on issue of shares		-	(43,982)
Lease liability payments principal portion	30	(119,083)	(90,964)
Dividends paid on ordinary shares	13	(499,422)	-
Net cash generated from financing activities		**105,325**	**261,277**
Net (decrease) / increase in cash and cash equivalents		(558,750)	316,634
Cash and cash equivalents at the beginning of the year		530,310	212,048
Effect of exchange rate changes on cash and cash equivalents		1,725	1,628
Cash and cash equivalents at the end of the year	28	**(26,715)**	**530,310**

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CrownPaintsPLC

1. NEW ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended standards, interpretations and improvements effective as of 1 January 2022. The group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The new standards and amendments effective as of 1 January 2022 are listed below:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements: 2018-2020 cycle (issued in May 2020)
    - AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
    - AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
    - AIP IAS 41 Agriculture – Taxation in fair value measurements

These standards and amendments had no impact on the consolidated financial statements of the group.

Standards issued but not yet effective

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

Effective for annual periods beginning on or after 1 January 2023

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

Effective for annual periods beginning on or after 1 January 2024

- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1

Effective date postponed indefinitely

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

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) and in the manner required by the Kenya Companies Act, 2015.

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

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2(r).

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2022.
Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

c) Foreign currency transactions

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

(i) Transactions and balances

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

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

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

(ii) Group companies

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

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

Significant financing component
The group has no significant financing components from its customers.

e) Tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Tax (continued)

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

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

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

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

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

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

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

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

f) Property, plant and equipment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment (continued)

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

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

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

- Land is stated at cost less any accumulated impairment losses.

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

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

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

g) Leases

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

Group as a lessee

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leases (continued)

i) Right-of-use assets

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

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

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

ii) Lease liabilities

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

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

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

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

Group as a lessor

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Borrowing costs

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

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

i) Intangible assets

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

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

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

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

Derecognition of intangible assets

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

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

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

j) Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets (continued)

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The group's financial assets at amortised cost includes trade and other receivables, amount due from related companies and bank and cash balances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financial assets (continued)

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

- For trade receivables and bank balances, the group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors, banks and the economic environment.

- The group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The amount written off is recognised in the statement of profit of loss. Any reversal of provision for ECLs is recognised in the statement of profit or loss which is based on the established provision matrix.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Trade payables and amounts due to related parties

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

Loans and borrowings

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

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

Derecognition

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

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

iii) Offsetting of financial instruments

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Fair value of assets and liabilities

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

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

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

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

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

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

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

l) Inventories

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Inventories (continued)

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

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

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

m) Impairment of non-financial assets

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

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

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

n) Cash and cash equivalents

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

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

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

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

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

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

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

q) Dividends payable

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

r) Significant accounting judgements, estimates and assumptions

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Judgements

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

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

Impairment of financial instruments

Impairment losses on financial assets-IFRS 9
The group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is based on the group's historical observed default rates. The group will revise the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

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

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

Deferred tax assets
Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward unused tax losses and the unused tax credits can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Refer to Note 14 for the disclosure on deferred tax.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Judgements (continued)

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

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

(ii) Estimates and assumptions

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

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

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

Revaluation of certain classes of property, plant and equipment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Estimates and assumptions (continued)

Useful lives of intangible assets

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

Impairment of non-financial assets

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Estimates and assumptions (continued)

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

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

Contingent liabilities

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

s) Investments in subsidiaries

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

3. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP – Year ended 31 December 2022

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture,fittings and equipment KShs'000	Work in progress* KShs'000	Total KShs'000
Cost or valuation							
At 1 January 2022	58,672	643,917	487,561	252,767	504,581	9,048	1,956,546
Additions	-	7,901	59,332	48,387	97,313	47,395	260,328
Transfer from WIP	-	-	3,363	-	143	(3,506)	-
Disposals	-	(10,900)	(754)	(3,828)	(678)	-	(16,160)
Exchange differences	-	171	8,574	4,189	3,613	672	17,219
At 31 December 2022	**58,672**	**641,089**	**558,076**	**301,515**	**604,972**	**53,609**	**2,217,933**
Accumulated depreciation							
At 1 January 2022	-	14,398	32,102	47,221	81,006	-	174,727
Charge for the year	-	13,528	45,553	68,851	103,527	-	231,459
Disposals	-	(200)	(61)	(1,088)	(60)	-	(1,409)
Exchange differences	-	190	1,927	1,672	1,146	-	4,935
At 31 December 2022	**-**	**27,916**	**79,521**	**116,656**	**185,619**	**-**	**409,712**
Net carrying amount							
At 31 December 2022	**58,672**	**613,173**	**478,555**	**184,859**	**419,353**	**53,609**	**1,808,221**

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

Refer to Notes 15 and 16 for details on assets pledged as security for the group's bank borrowings.
If all assets, except for freehold land and work in progress, were measured using the cost model, their carrying amounts would be as follows:

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	**534,092**	**462,574**	**77,069**	**410,038**	**1,483,773**

3. PROPERTY, PLANT AND EQUIPMENT (continued)
(a) GROUP – Year ended 31 December 2021

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

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

**This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset. Refer to Notes 15 and 16 for details on assets pledged as security for the group's bank borrowings. If all assets, except for freehold land and work in progress, were measured using the cost model, their carrying amounts would be as follows:

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)
(b) COMPANY – Year ended 31 December 2022

	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 2022	58,672	639,781	288,092	179,261	437,880	-	1,603,686
Additions	-	7,901	41,633	36,930	91,318	47,395	225,177
Disposals	-	(10,900)	(754)	(3,600)	(678)	-	(15,932)
At 31 December 2022	**58,672**	**636,782**	**328,971**	**212,591**	**528,520**	**47,395**	**1,812,931**
Accumulated depreciation							
At 1 January 2022	-	10,931	19,700	36,853	66,929	-	134,413
Charge for the year	-	12,878	24,982	49,773	93,610	-	181,243
Disposals	-	(200)	(61)	(1,088)	(60)	-	(1,409)
At 31 December 2022	**-**	**23,609**	**44,621**	**85,538**	**160,479**	**-**	**314,247**
Net carrying amount							
At 31 December 2022	**58,672**	**613,173**	**284,350**	**127,053**	**368,041**	**47,395**	**1,498,684**

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

Refer to Notes 15 and 16 for details on assets pledged as security for the company's bank borrowings.
If all assets, except for freehold land and work in progress, were measured using the cost model, the carrying amounts would be as follows:

	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Net carrying amount	**544,599**	**275,612**	**70,643**	**167,662**	**1,058,516**

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3. PROPERTY, PLANT AND EQUIPMENT (continued)
(b) COMPANY – Year ended 31 December 2021

	Freehold land KShs'000	Buildings KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Fixtures, fittings and equipment KShs'000	Total KShs'000
Cost or valuation						
At 1 January 2021	58,672	705,624	331,758	196,694	418,475	1,711,223
Additions	-	57,781	36,954	41,602	123,534	259,871
Disposals	-	-	(1,426)	(3,300)	(50)	(4,776)
Elimination on revaluation*	-	(55,631)	(79,025)	(162,663)	(196,956)	(494,275)
(Impairment) / reversal of impairment	-	-	(169)	-	92,877	92,708
Revaluation adjustment	-	(67,993)	-	106,928	-	38,935
At 31 December 2021	**58,672**	**639,781**	**288,092**	**179,261**	**437,880**	**1,603,686**
Accumulated depreciation						
At 1 January 2021	-	54,454	76,813	158,600	190,635	480,502
Charge for the year	-	12,108	22,017	41,365	73,258	148,748
Disposals	-	-	(105)	(449)	(8)	(562)
Elimination on revaluation*	-	(55,631)	(79,025)	(162,663)	(196,956)	(494,275)
At 31 December 2021	**-**	**10,931**	**19,700**	**36,853**	**66,929**	**134,413**
Net carrying amount						
At 31 December 2021	**58,672**	**628,850**	**268,392**	**142,408**	**370,951**	**1,469,273**

*This relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.
Refer to Notes 15 and 16 for details on assets pledged as security for the company's bank borrowings.
If all assets, except for freehold land and work in progress, were measured using the cost model, the carrying amounts would be as follows:

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

No borrowing costs were capitalized during the year ended 31 December 2022 (2021: Nil).

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

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

The basis of valuation was: -

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

The methods used to determine the fair value were;

i) The comparable approach, which compares the sales of similar items in the market. The approach was used in the valuation of unspecialised equipment.

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

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

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

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

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

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

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

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

4. INTANGIBLE ASSETS	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Cost				
At 1 January	257,896	222,566	236,987	204,444
Additions	14,186	34,449	13,623	32,543
Exchange difference	919	881	-	-
At 31 December	**273,001**	**257,896**	**250,610**	**236,987**
Amortisation				
At 1 January	184,329	162,725	167,540	148,286
Charge for the year	25,500	20,799	23,734	19,254
Exchange difference	811	805	-	-
At 31 December	**210,640**	**184,329**	**191,274**	**167,540**
Net carrying amount				
At 31 December	**62,361**	**73,567**	**59,336**	**69,447**

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

There were no borrowing costs capitalized during the year ended 31 December 2022 (2021: Nil).
No intangible assets have been pledged as security for the year ended 31 December 2022 (2021: Nil).

5. RIGHT OF USE ASSETS	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Cost				
At 1 January	616,065	435,464	320,004	263,497
Additions	311,954	235,116	288,004	115,822
Disposal	(89,077)	(59,315)	(72,606)	(59,315)
Exchange difference	12,764	4,800	-	-
At 31 December	**851,706**	**616,065**	**535,402**	**320,004**
Amortisation				
At 1 January	335,679	222,102	152,613	109,743
Charge for the year	182,847	155,895	111,820	92,672
Disposals	(83,669)	(49,803)	(67,198)	(49,802)
Exchange difference	11,428	7,485	-	-
At 31 December	**446,285**	**335,679**	**197,235**	**152,613**
Net carrying amount				
At 31 December	**405,421**	**280,386**	**338,167**	**167,391**
Amounts recognized in profit and loss:				
Amortization expense on right-of-use assets (note 20, 22 & 23)	182,847	155,895	111,820	92,672
Interest expense (note 24)	38,684	31,582	29,102	24,213

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

5. RIGHT OF USE ASSETS (continued)

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

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

There are no restrictions or covenants imposed by lessors and the company did not enter into any sale and leaseback transactions during the year (2021: Nil).

The total cash outflow for leases amount to KShs 256 million (2021: KShs 214 million inclusive of service charge which has been expensed in current year) for the group, company KShs 176 million in 2022 (2021: KShs 143 million inclusive of service charge which has been expensed in current year).

6. INVESTMENT IN SUBSIDIARIES

Information about subsidiaries

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

Details of investment	Country of incorporation	Activity	Holding %	2022 KShs'000	2021 KShs'000
Crown Paints Allied Industries Limited (44,800 ordinary shares of KShs 1,000 each, share premium – 34,800 shares of KShs 1,500 each).	Kenya	Manufacture of adhesives	100	97,000	97,000
Regal Paints Uganda Limited (formerly Crown Buildings and Products Limited –Uganda) 1,039,203 ordinary shares of KShs 288 each, share premium- 1,034,203 shares of KShs 431 each.	Uganda	Selling of auto paints & decorative products	100	745,209	745,209
Crown Paints Tanzania Limited 75,413 ordinary shares of KShs 4,525 each, share premium 65,413 shares of KShs 6,603 each.	Tanzania	Selling of auto paints & decorative products	100	773,162	773,162
Crown Paints Rwanda Limited 10,521 ordinary shares of KShs 1,148 each, share premium 9,521 shares of KShs 1,6997 each.	Rwanda	Selling of auto paints & decorative products	100	173,914	173,914
				1,789,285	**1,789,285**
Provision for impairment in subsidiaries				(850,393	(775,008)
				938,892	**1,014,277**

During the year ended 31 December 2022, an additional provision for impairment in subsidiaries has been made of KShs 75,385,000 (2021: KShs 5,000,000).

6. INVESTMENT IN SUBSIDIARIES (continued)

Impairment loss	**2022 KShs'000**	**2021 KShs'000**
At 1 January	775,008	770,008
Charge for the year	75,385	5,000
At 31 December	**850,393**	**775,008**

Year ended 31 December 2022

Impairment loss Subsidiary	**Carrying amount KShs'000**	**Recoverable amount KShs'000**	**Impairment loss KShs'000**
Regal Paints Uganda Limited	367,662	396,000	-
Crown Paints Tanzania Limited	385,637	422,000	-
Crown Paints Rwanda Limited	163,978	141,001	22,977
Crown Paints Allied Industries Limited	97,000	44,592	52,408
	1,014,277	**1,003,593**	**75,385**

Year ended 31 December 2021

Impairment loss Subsidiary	**Carrying amount KShs'000**	**Recoverable amount KShs'000**	**Impairment loss KShs'000**
Regal Paints Uganda Limited	367,662	425,000	-
Crown Paints Tanzania Limited	385,637	495,000	-
Crown Paints Rwanda Limited	168,978	163,978	5,000
	922,277	**1,083,978**	**5,000**

Inputs used:	**Regal Paints Uganda Limited**	**Crown Paints Tanzania Limited**	**Crown Paints Rwanda Limited**
Discount rate - weighted average cost of capital	22.31%	18.68%	18.83%
Terminal growth rate in perpetuity	5.3%	5.8%	5.0%

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

During the year ended 31 December 2022, an impairment assessment was carried out by management and as tabulated above, the recoverable amount of two subsidiaries was higher than the carrying amount whereas for Crown Paints Rwanda Limited and Crown Paints Allied Industries Limited the recoverable amount was lower than the carrying amount. The recoverable amount of the CGU's (cash generating units) for each entity is the value in use which was estimated using the discounted cash flows.

6. INVESTMENT IN SUBSIDIARIES (continued)

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make. Revenue growth was projected taking into account the average growth levels experienced over the past three years and the estimated sales volume and price growth for the next five years which also includes the company's marketing plans.

An impairment loss was recognised in the statement of profit or loss for the year ended 31 December 2022.

The assumptions used includes the following;

Regal Paints Uganda Limited

- Management anticipates revenue to increase at an average of 16.1% for the period 2023-2027. EBITDA margin is expected to increase from 5.2% in 2022 to 10.2% in 2023. Cost of sales is forecast to increase by 15.7% between 2023 - 2027. Gross margin improved from 24.7% in 2021 to 28.5% in 2022 and is forecast to increase at average of 28.6%.
- Operating expenses as a % of revenue has declined in 2022 at 38.4% from 38.7% in 2021. The trend is expected to continue as operating expenses as a % of revenue is expected to average 30.5% in the forecast period.
- The expected volume growth will be 9% in 2023 and thereafter 12% up to 2027 due to;
    - Inflation rates will not exceed 3%. i.e the raw materials cost increase will not exceed 3%
    - Expected annual price increases will be at 4%.
    - No economic nor political factors will affect the projected volumes and sales growth below projections.
    - Projected Sadolin sales volume will not in any way go below stated projections.
- Overheads will be absorbed at UG Shs 300 per litre.
- Annual salaries increase will not exceed 5%.
- Budgets will be adhered to100%.
- The tolling fee from Sadolin brand sales will be maintained at 9% of raw materials and overheads.
- The Company will maintain 60 days of raw materials.
- Debtors net outstanding days will gradually be reduced to 65 days.
- On average the credit days will be 2.2 months considering shipping period and mix of local creditors.

Crown Paints Tanzania Limited

- Management anticipates a modest growth of 32% in 2023, 23% in 2024 and thereafter 25% in 2025 and 2026. In the macro-economics the growth in GDP is anticipated at 6.3%.
- EBITDA margin is expected to increase from 5% in 2022 to 9% in 2023, attributed to increase in revenues. The Company's strategy to increase EBITDA is based on four main points:
    - Reclaiming regions/territories that were Crown's strongholds through increased marketing and deploying area salesmen.
    - Enhancing strong internal controls after centralizing operations in Arusha.
    - Change in business model, after restructuring production to be more customer centric in production. Focusing on customer sales, delivery and collections to enhance cashflow hence increase in production without cash hindrance. Management has now enhanced more direct monitoring from head office.
    - Company is now sourcing most raw materials from source at more competitive prices hence enjoying lower prices and increasing earnings.

6. INVESTMENT IN SUBSIDIARIES (continued)

- Cost of sales is forecast to increase by between 24%-30% due to increase in raw materials in the forecast period between 2023 and 2026. Other costs of sales include royalty/levy which is projected to be incurred in the forecast period at a minimum of USD 50,000 per annum or 3% of Sadolin net sales.
- Gross margin declined from 21% in 2021 to 19% in 2022 and is forecast to increase to an average of 25% between 2023-2026.
- Operating expenses as a % of revenue improved in 2022 to 19% from 21% in 2021. This trend is expected to continue as operating expenses as % of revenue is expected to average of 17% in the forecast period which is lower than current result.
- An expected growth of 8% in the construction sector.
- Better internal controls, better production quality, cost saving in multiple fronts - Staff, factory overheads and stocking requirement and better planning and supply chain activity.
- Use of one distributor Sai in Dar es Salaam who has been handling the sales.
- Team Kubwa to continue to boost the coming years sales.
- Raw materials cost will remain same or proportionate increase with an increase in sales price.
- Exchange rates will remain stable, and any change will not have a material impact on raw material cost.
- Annual salaries increase will not exceed 7%.
- Price increase has been estimated to be marginal at 3%.

Crown Paints Rwanda Limited

- Management anticipates a growth of sales volume at an average of 15.0% in 2023-2026. Sales revenue is expected to grow at an average of 19.2% 2023-2026 which is foreseen to be growth rate across all product lines. Gross cost of sales is forecast to increase by 19.5% between 2023-2026. The gross margin is forecast to increase to average of 27.2% 2023-2026. Operating expenses as a % of revenue remained at 24% in both 2022 and 2021. However, operating expenses are expected to grow at average of 8.8% 2023-2026 lower than revenue, hence improvement in the operating margin.
- Factory staff costs are considered to have a constant increase of 5% over the years. Factory depreciation remains constant in the fixed asset register as long as there are no disposals and acquisitions. Other costs of production and overheads are considered to have 1% increase across the years. Transport cost to depots given a consideration of 5% increase each year.
- Depot staff costs are considered to have a constant increase of 7% over the years.
- Audit fee was given a consideration of 2% across the years. Legal fee was considered to increase with 5% each year. Insurance is assumed to have a 5% increase each year. Other administration costs are considered to increase with 1% across the years.
- Transport cost was calculated using the budgeted volume and taking into consideration the cost per litre remained constant.
- Travel and entertainment, advertising and promotion and depot costs (security and rent) were given the assumption of 5% increase across the years. Other expenses were given an assumption of 1% while bank charges were considered to increase by 0.5% across the years.

7. INVENTORIES

	GROUP		COMPANY	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs'000**	**2021 KShs'000**
Finished goods and packaging materials	1,096,310	1,019,219	822,580	796,346
Raw materials	2,375,496	1,639,191	1,909,584	1,327,551
Goods in transit	250,479	695,674	233,263	695,622
Work In progress	113,084	59,427	58,960	29,008
	3,835,369	**3,413,511**	**3,024,387**	**2,848,527**
Inventories write-down to NRV	(90,440)	(90,673)	(79,222)	(80,876)
	3,744,929	**3,322,838**	**2,945,165**	**2,767,651**

The amount of inventories write-down reversed during the year was KShs 2,169,000 (2021: KShs 22,555,000) for the group and KShs 1,654,000 for the company (2021: KShs 22,460,000), for inventories carried at net realisable value. This is recognised in other income, Note 21. Reversal of inventory write down occurs when inventory assessed as slow moving is used as input in production or is finally sold. Provision is normally based on the last movement day of the stock item which varies with subsequent sales or use.

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

	GROUP		COMPANY	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs'000**	**2021 KShs'000**
At the beginning of the year	90,673	73,571	80,876	65,285
Provision for the year (note 23)	3,203	42,988	-	38,051
Used in the year – write off	(1,793)	(3,631)	-	-
Reversals of write-down (note 21)	(2,169)	(22,555)	(1,654)	(22,460)
Exchange difference	526	300	-	-
	90,440	**90,673**	**79,222**	**80,876**

8. TRADE AND OTHER RECEIVABLES

Trade receivables	1,558,797	1,394,302	1,237,580	1,165,698
Other receivables	181,363	103,113	106,947	42,865
Prepayments	89,060	139,816	66,550	107,771
	1,829,220	**1,637,231**	**1,411,077**	**1,316,334**

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

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

As at 31 December 2022, the group's trade receivables with initial value of KShs 554,855,000 (2021: KShs 502,328,000) were fully provided for. The company's trade receivables with initial value of KShs 376,764,000 (2021: KShs 325,156,000) were fully provided for.

8. TRADE AND OTHER RECEIVABLES (continued)

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

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
At the beginning of the year	502,328	639,085	325,156	404,656
Charge for the year	51,608	96,762	51,608	94,435
Recoveries during the year	(9,979)	(229,620)	-	(173,935)
Exchange difference	10,898	(3,899)	-	-
	554,855	**502,328**	**376,764**	**325,156**
Net movement				
Charge for the year	51,608	96,762	51,608	94,435
Recoveries during the year	(9,979)	(229,620)	-	(173,935)
	41,629	**(132,858)**	**51,608**	**(79,500)**
Ageing analysis of trade receivables:				
Less than 60 days	1,500,290	1,465,915	1,201,697	1,180,224
61 days to 90 days	122,662	52,502	70,749	17,032
Over 90 days	490,700	378,213	341,898	293,598
	2,113,652	**1,896,630**	**1,614,344**	**1,490,854**
Allowance for ECLs / impairment	(554,855)	(502,328)	(376,764)	(325,156)
Net	**1,558,797**	**1,394,302**	**1,237,580**	**1,165,698**

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. An increase/(decrease) in the gross carrying amounts of the trade receivables impacts on the movement in the ECL amounts with a consideration of the relevant probability of defaults (PDs) used in the ECL computation.

Ageing analysis for other receivables:

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Less than 60 days	104,082	79,475	29,741	19,302
61 days to 90 days	7,060	868	7,060	868
Over 90 days	70,221	22,770	70,146	22,695
	181,363	**103,113**	**106,947**	**42,865**
Impaired	-	-	-	-
Net	**181,363**	**103,113**	**106,947**	**42,865**

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

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48.42% of the company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 19.36% of the company's shares. Crown Paints and Building Products Limited is a wholly owned subsidiary of Barclay Holdings Limited. Thus, the ultimate parent Company for Crown Paints Kenya Plc is Barclay Holdings Limited. The remaining 32.22% of the shares are widely held through the Nairobi Securities Exchange. Crown Paints Allied Industries Limited, Regal Paints Uganda Limited, Crown Paints Rwanda Limited and Crown Paints Tanzania Limited are wholly owned subsidiaries of the company.

(i) Amount due from:	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Crown Paints and Building Products Limited	921,459	519,786	921,459	519,786
Regal Paints Uganda Limited	-	-	154,008	120,821
Crown Paints Allied Industries Limited	-	-	27,931	8,054
Crown Paints Rwanda Limited	-	-	14,574	3,240
Crown Paints Tanzania Limited	-	-	578,892	436,578
	921,459	**519,786**	**1,696,864**	**1,088,479**
Provision for expected credit losses	(262,547)	(519,555)	(972,613)	(1,047,540)
	658,912	**231**	**724,251**	**40,939**

As at 31 December 2022, the Group's related party receivables with initial value of KShs 262,547,000 (2021: KShs 519,555,000) were fully provided for. The Company's related party receivables with initial value of KShs 972,613,000 (2021: KShs 1,047,540,000) were fully provided for.

Related party receivables are carried net of expected credit losses (ECLs) / impairment. An increase/(decrease) in the gross carrying amounts of related party receivables impacts on the movement in the ECL amounts with a consideration of the relevant probability of defaults (PDs) used in the ECL computation.

The movement in the expected credit losses / impairment is as set out below.

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
At the beginning of the year	519,555	427,190	1,047,540	864,649
Allowance for expected credit losses	43,619	103,642	225,700	198,849
Recoveries during the year	(300,627)	(11,277)	(300,627)	(15,958)
	262,547	**519,555**	**972,613**	**1,047,540**
Expected credit losses net movement				
Allowance for expected credit losses	43,619	103,642	225,700	198,849
Recoveries during the year	(300,627)	(11,277)	(300,627)	(15,958)
	(257,008)	**92,365**	**(74,927)**	**182,891**
Ageing analysis				
Less than 60 days	81,460	61,673	363,965	202,776
61 days to 90 days	78,581	47,167	119,766	31,598
Over 90 days	761,418	410,946	1,213,133	854,105
	921,459	**519,786**	**1,696,864**	**1,088,479**
Impaired	(262,547)	(519,555)	(972,613)	(1,047,540)
Neither past due nor impaired	**658,912**	**231**	**724,251**	**40,939**

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(ii) Payables to related companies:	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Crown Paints Allied Industries Limited	-	-	29,072	24,532
Daxian Limited	-	22,892	-	22,892
Regal Paints Uganda Limited	-	-	11,305	9,773
Crown Paints and Building Products Limited	39,617	44,434	35,480	32,430
	39,617	**67,326**	**75,857**	**89,627**

The following transactions were carried out with related parties:

(iii) Sale of goods and services rendered:				
Crown Paints Allied Industries Limited	-	-	78,650	45,443
Crown Paints Rwanda Limited	-	-	86,334	57,037
Regal Paints Uganda Limited	-	-	160,540	86,850
Crown Paints Tanzania Limited	-	-	205,295	188,331
Crown Paints and Building Products Limited	8,605	804	8,605	804
Purchase of goods:				
Crown Paints Allied Industries Limited	-	-	138,559	104,649
Regal Paints Uganda Limited	-	-	1,140	17,185
Crown Paints Rwanda Limited	-	-	-	2,998
Crown Paints and Building Products Limited	155,892	159,189	138,448	132,940
Services rendered:				
Crown Paints and Building Products Limited	10,066	13,756	10,066	12,153
Daxian Limited	130,069	123,647	130,069	123,647

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

(iv) Payments made on behalf of related parties	GROUP & COMPANY	
	2022 KShs'000	2021 KShs'000
Crown Paints and Building Products Limited	**921,459**	**519,786**
Movement in the year:		
At beginning of the year	519,786	531,327
Payments made on behalf of CPBPL	558,929	410,096
Receipts from CPBPL	(157,256)	(421,637)
Gross amount	**921,459**	**519,786**
Provision for expected credit losses	(262,547)	(519,555)
As at 31 December- net amount	**658,912**	**231**

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(v) Payments made / (receipts from) on behalf of subsidiaries	COMPANY	
	2022 KShs'000	**2021 KShs'000**
Crown Paints Allied Industries Limited	-	(1,762)
Regal Paints Uganda Limited	137	33,073
Crown Paints Tanzania Limited	-	(62,361)

(vi) Key management personnel compensation	GROUP & COMPANY	
	2022 KShs'000	**2021 KShs'000**
Short term employee benefits	193,491	225,217
Defined contribution plan	5,188	4,763
	198,679	**229,980**

(vii) Directors' remuneration		
Fees for services as directors	15,864	14,245
Other emoluments (included in key management personnel compensation above)	167,709	154,644
	183,573	**168,889**
(viii) Advances to related parties		
Crown Paints and Building Products Limited	**152,145**	**99,680**
Movement in advances to CPBPL:		
At beginning of the year	99,680	86,485
Advances during the year	209,721	221,287
Repayments made during the year	(157,256)	(208,092)
Gross amount	**152,145**	**99,680**
Provision for expected credit losses	(102,145)	(99,680)
As at 31 December - net amount	**50,000**	**-**
(ix) Short term notes due to related parties		
Directors	**361,656**	**366,570**

The principal amount of the short-term notes is normally rolled forward on maturity, but interest is most of the times paid out. The total amount of interest paid out during the year amounted to KShs 27,067,000 (2021: KShs 18,368,000).

Terms and conditions of transactions with related parties.

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

10. TAX

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(24,932)	(103,373)	9,470	(75,130)
Charge for the year	275,668	357,616	271,388	353,209
Paid during the year	(347,469)	(278,674)	(355,526)	(268,609)
Exchange difference	(1,291)	(501)	-	-
Current tax (recoverable) / payable	**(98,024)**	**(24,932)**	**(74,668)**	**9,470**
The amount has been presented in the statement of financial position as follows;				
Current tax payable	-	9,470	-	9,470
Current tax recoverable	(98,024)	(34,402)	(74,668)	-
Net amount	**(98,024)**	**(24,932)**	**(74,668)**	**9,470**
PROFIT OR LOSS				
Current tax at 30% (2021: 30%) on the taxable profit for the year	275,668	357,616	271,388	353,209
Deferred tax (credit) / charge (note 14)	(26,813)	35,554	(26,813)	35,554
	248,855	**393,170**	**244,575**	**388,763**
Reconciliation of tax expense to tax based on accounting profit				
Accounting profit before tax	**1,072,870**	**1,124,400**	**771,106**	**1,055,440**
Tax at applicable rate of 30% (2021: 30%)	321,861	337,320	231,332	316,632
Tax effect on items not eligible for tax purposes	(65,778)	71,565	13,243	72,131
Minimum tax liability - Tanzania	4,285	3,622	-	-
Deferred tax not recognised- subsidiaries (note 14)	(11,513)	(19,337)	-	-
	248,855	**393,170**	**244,575**	**388,763**

10. TAX (continued)

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Tax effect on items not eligible for tax purposes can be summarised as follows:				
Depreciation	1,770	3,725	1,770	3,644
Amortization intangible assets	165	172	-	-
Amortization of right of use assets	80	80	80	80
Staff benevolent costs	319	257	316	234
Bad debts written off	(327)	25,450	-	1,807
Donations	131	246	131	149
Sponsorship	4,189	1,930	4,189	1,930
Fines and penalties	437	2,130	420	1,545
School fees	1,369	1,517	1,213	1,213
Inventory write off	-	15,117	-	-
Corporate social responsibility	101	230	52	230
Pension scheme administration costs	1,379	1,210	1,379	1,210
Company staff program	561	2,155	-	645
Excess pension contribution	4,563	3,805	4,515	3,805
Allowance for expected credit losses for amount owing from related parties	(77,102)	27,710	(22,477)	54,867
Overheads - other	(3,872)	(14,439)	(1,420)	(998)
Club membership subscriptions	459	270	459	270
Impairment loss on investment in subsidiaries	-	-	22,616	1,500
	(65,778)	**71,565**	**13,243**	**72,131**

11. SHARE CAPITAL

	GROUP & COMPANY	
	2022 KShs'000	2021 KShs'000
Authorised:		
163,707,000 (2021: 163,707,000) ordinary shares of KShs. 5 each	**818,535**	**818,535**
Issued and fully paid:		
At 1 January – 142,362,000 (2021: 71,181,000) ordinary shares of KShs. 5 each	711,810	355,905
Issued during the rights issue in June 2021 - 71,181,000 ordinary shares of KShs. 5 each	-	355,905
At 31 December	**711,810**	**711,810**

The company's authorized share capital is divided into 163,707,000 ordinary shares of KShs 5 each (this includes 21,345,000 ESOP shares).

12. RESERVES

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Share premium	392,097	392,097	392,097	392,097
Revaluation reserve	77,707	117,471	53,214	83,420
Foreign currency translation reserve	106,701	102,110	-	-
Retained earnings	2,401,032	2,106,701	2,518,055	2,530,766
	2,977,537	**2,718,379**	**2,963,366**	**3,006,283**

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

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

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

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

13. DIVIDENDS

	GROUP & COMPANY	
	2022 KShs'000	2021 KShs'000
Dividend declared:		
Final dividend for 2021 KShs 4.00 per share (2020: Nil)	**569,448**	**-**
Split as below:		
Declared and paid	499,422	-
Declared but not paid	70,026	-
	569,448	**-**
Proposed for approval at the annual general meeting (not recognised as a liability as at 31 December):		
Dividend on ordinary shares 2022: KShs 4.00 (2021: KShs 4.00) per share	**569,448**	**569,448**

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

14. DEFERRED TAX ASSET- GROUP

	Balance at 1 January KShs'000	Profit or loss KShs'000	Utilised tax loss during the year KShs'000	Other comprehensive income KShs'000	Balance at 31 December KShs'000
Movements in deferred tax during the year were as follows:					
Year ended 31 December 2022					
Accelerated capital allowances	104,895	9,706	-	-	114,601
Unrealised exchange loss	(6,607)	2,378	-	-	(4,229)
Unrealised exchange gain	2,382	9,888	-	-	12,270
Revaluation reserve	80,856	(13,407)	-	-	67,449
Allowance for expected credit losses – third parties	(151,453)	(15,004)	-	-	(166,457)
Provision for staff leave	(6,915)	(22)	-	-	(6,937)
Provision for contingent liability	(5,224)	2,942	-	-	(2,282)
Provision for obsolete inventories	(27,202)	72	-	-	(27,130)
Provision for penalties and other items	(23,644)	(4,715)	-	-	(28,359)
Tax losses	(307,200)	(18,876)	11,738	-	(314,338)
	(340,112)	**(27,038)**	**11,738**	**-**	**(355,412)**
Deferred tax not recognised- subsidiaries	348,168	225	(11,738)	-	336,655
	8,056	**(26,813)**	**-**	**-**	**(18,757)**
Year ended 31 December 2021					
Accelerated capital allowances	126,631	(21,736)	-	-	104,895
Unrealised exchange loss	(5,138)	(1,469)	-	-	(6,607)
Unrealised exchange gain	8,466	(6,084)	-	-	2,382
Revaluation reserve	31,799	12,846	-	36,211	80,856
Allowance for expected credit losses – third parties	(191,725)	40,272	-	-	(151,453)
Provision for staff leave	(4,492)	(2,423)	-	-	(6,915)
Provision for contingent liability	(2,375)	(2,849)	-	-	(5,224)
Provision for obsolete inventories	(22,198)	(5,004)	-	-	(27,202)
Provision for penalties and other items	(23,181)	(463)	-	-	(23,644)
Provision for rebates	(749)	749	-	-	-
Tax losses	(323,721)	(4,752)	21,273	-	(307,200)
	(406,683)	**9,087**	**21,273**	**36,211**	**(340,112)**
Deferred tax not recognised- subsidiaries	367,505	26,467	(21,273)	(24,531)	348,168
	(39,178)	**35,554**	**-**	**11,680**	**8,056**

14. DEFERRED TAX ASSET- COMPANY

	Balance at 1 January KShs'000	Profit or loss KShs'000	Other comprehensive income KShs'000	Balance at 31 December KShs'000
Movements in deferred tax during the year were as follows:				
Year ended 31 December 2022				
Accelerated capital allowances	103,955	(8,145)	-	95,810
Unrealised exchange loss	(1,823)	1,552	-	(271)
Revaluation reserve	62,734	(8,175)	-	54,559
Allowance for expected credit losses – third parties	(97,546)	(15,483)	-	(113,029)
Provision for staff leave	(6,598)	-	-	(6,598)
Provision for contingent liability	(5,224)	2,942	-	(2,282)
Provision for obsolete inventories	(24,261)	496	-	(23,765)
Provision for penalties	(23,181)	-	-	(23,181)
	8,056	**(26,813)**	**-**	**(18,757)**
Year ended 31 December 2021				
Accelerated capital allowances	104,718	(763)	-	103,955
Unrealised exchange loss	(4,773)	2,950	-	(1,823)
Revaluation reserve	31,800	19,254	11,680	62,734
Allowance for expected credit losses – third parties	(121,395)	23,849	-	(97,546)
Provision for staff leave	(4,388)	(2,210)	-	(6,598)
Provision for contingent liability	(2,375)	(2,849)	-	(5,224)
Provision for obsolete inventories	(19,584)	(4,677)	-	(24,261)
Provision for penalties	(23,181)	-	-	(23,181)
	(39,178)	**35,554**	**11,680**	**8,056**

No provision has been made for a deferred tax asset on tax losses relating to the subsidiaries amounting to KShs 314,338,196 (2021: KShs 307,200,414) because it is not expected that the companies will have taxable profits in the near future against which the temporary differences and tax losses can be utilised. The accumulated tax losses for the subsidiaries amount to KShs 1,047,793,986 (2021: KShs 1,024,001,379) and can be carried forward for a maximum period of 5 years in accordance with Rwandan tax laws and indefinitely for Kenya, Tanzania and Uganda. The other temporary differences relating to the subsidiaries for which no deferred tax has been recognized amount to KShs 74,388,706 (2021: KShs 125,277,845).

15. BANK OVERDRAFT

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Bank overdraft	**507,715**	**15,053**	**495,877**	**8,297**

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

The weighted average interest rate on the overdraft at year-end was 12% (2021: 12%), while letters of guarantee had a weighted average interest rate of 9.5% (2021: 9.5%). The bank overdrafts are reviewed annually and are payable on demand.

16. BANK LOANS

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Long term loans:				
KCB Loan - Kenya	411,074	232,250	411,074	232,250
Bank of Africa Loan - Uganda	6,700	9,227	-	-
I&M Loan - Uganda	57,469	60,072	-	-
I&M Loan - Tanzania	19,129	28,188	-	-
KCB Loan - Tanzania	11,691	-	-	-
	506,063	**329,737**	**411,074**	**232,250**
Short term borrowings:				
NCBA PIF facility	70,559	53,968	70,559	53,968
KCB PIF facility	451,145	134,116	402,629	110,552
	521,704	**188,084**	**473,188**	**164,520**
Total bank loans	**1,027,767**	**517,821**	**884,262**	**396,770**
Due within 1 year	**912,888**	**302,209**	**807,885**	**246,724**
Due after 1 year	**114,879**	**215,612**	**76,377**	**150,046**
Movements during the year:				
At 1 January	517,821	807,322	396,770	694,344
Additional loan received	787,404	1,192,951	627,020	1,125,075
Accrued interest	67,850	85,425	65,571	76,035
Interest payments	(67,850)	(85,425)	(65,571)	(76,035)
Loan repayments	(280,147)	(1,481,331)	(139,528)	(1,422,918)
Foreign exchange difference	2,689	(1,121)	-	269
At 31 December	**1,027,767**	**517,821**	**884,262**	**396,770**

16. BANK LOANS (continued)

The amounts due within one year relates to post import financing from Kenya Commercial Bank Limited and NCBA Bank for a period not exceeding 6 months and is secured pari-passu by debenture of KShs. 110 million and USD 1 million over the assets of the group supported by a supplementary charge over LR 209/5792 along Mogadishu road, LR 209/4275 along Likoni road and collateral charge over LR 209/4479 along Dar es Salaam road. Further, this is also secured by a corporate guarantee and indemnity for KShs 210 million and USD 2 million duly executed by Crown Paints and Building Products Limited. The weighted average interest rate on the loans at year-end was 12% (2021: 12%). The amount due in 1 year also includes the current portion of the long-term loans due within 12 months amounting to KShs 391 million (2021: KShs 118 million) for the group, company KShs 335 million (2021: 83 million).

The long term loans relate to financing from Kenya Commercial Bank Limited for the construction of warehouses and offices, landed costs of vehicles, equipment, fixtures and fittings for a new factory erected on property L.R. No. Kisumu/Ojola/4790 and asset based finance loan for the purchase of new machinery and motor vehicles. The facilities shall be repaid in 77 months and 48 months consecutive monthly instalments inclusive of interest and other charges.

The loan from I&M Bank Limited (Uganda) is a letter of credit cum term loan for the purchase of machinery required in the ordinary course of business. The interest on the term loan is at the Bank's USD prime lending rate minus 1% effective 9% per annum and the facility shall be repaid in 60 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 24 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of USD 3,099,000 over all the assets of Regal Paints Uganda Limited and corporate guarantee and indemnity of Crown Paints Kenya Plc for USD 3,099,000.

The long term loan from Bank of Africa (Uganda) is an asset finance facility of USD 88,000 repayable in 36 equal monthly instalments at an effective minimum interest rate of 9% per annum. The loan is secured by chattels mortgage/ specific charge to the tune of USD 88,000 over the truck being financed by the Bank and a fixed and floating charge to the tune of USD 88,000 over current and future assets of the company. The composite facility import loan/ short term loan from KCB Bank Uganda is a facility of USD 450,000 at a rate of 9% to finance the working capital needs of the business. The facility is available for a period of 12 months and each drawdown under this limit run for a maximum period of 120 days.

The loan from I&M Bank Tanzania Limited is an import and asset based financing for the purchase of machinery drawn down under the USD 2,051,830 facility. The interest on the term loan is at the Bank's USD prime lending rate minus 1% effective 9% per annum and the facility shall be repaid in 84 months consecutive monthly instalments commencing after an initial moratorium period on repayment of principal amount of 24 months inclusive of interest and other charges. The loan is secured by fixed and floating debenture for an amount of USD 2,564,787 over all the assets of Crown Paints Tanzania Limited, corporate guarantee of Crown Paints Kenya Plc for USD 2,052,000 and personal guarantee of Mhamud Charania for USD 2,052,000. The revolving post import loan from KCB Bank Tanzania, is a facility of USD 100,000 to facilitate importation of raw materials. The loan is payable at the rate of 10% being the USD base lending rate of 9% plus 1% margin and is available for a period of 12 months. The loan is secured by a debenture instrument of USD 400,000, joint and several guarantee and indemnity of directors and corporate guarantee by Crown Paints Kenya Plc.

17. SHORT TERM NOTES

	GROUP & COMPANY	
	2022 KShs'000	2021 KShs'000
Amounts falling due within one year	**798,263**	**527,574**
Movement in the year:		
At 1 January	527,574	510,881
Additional loan received	419,266	15,819
Accrued interest	61,418	52,805
Interest payments	(27,067)	(18,368)
Loan repayments	(182,928)	(33,563)
At 31 December	**798,263**	**527,574**

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

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Amounts falling due within one year				
Trade payables	2,113,349	2,383,410	1,805,815	2,046,055
Other payables	143,032	74,751	127,127	62,880
Accruals	453,631	463,671	259,095	322,059
	2,710,012	**2,921,832**	**2,192,037**	**2,430,994**

Terms and conditions of the above financial liabilities:

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

19. REVENUE FROM CONTRACTS WITH CUSTOMERS

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Following revenue arose from sale of goods:				
Decorative paints	8,808,827	8,629,881	8,281,194	8,065,166
Industrial paints	1,392,691	1,206,992	1,314,378	1,125,249
Automotive paints	791,540	551,384	215,660	173,256
Adhesives	395,750	344,923	346,863	292,545
	11,388,808	**10,733,180**	**10,158,095**	**9,656,216**

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

20. COST OF SALES

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Raw materials	6,641,018	5,912,351	5,935,416	5,313,564
Salaries and wages	262,862	260,134	213,290	213,046
Depreciation on plant and machinery	60,813	59,929	37,852	34,118
Machinery repairs and maintenance	75,808	60,032	70,855	55,999
Fuel, water and electricity	29,563	31,972	18,214	22,601
Safety and environmental costs	48,950	45,014	47,226	43,762
Amortization on right of use asset	9,421	7,935	-	-
Transport costs	3,017	1,492	2,924	1,441
Factory rent	-	1,378	-	-
Others	12,167	10,344	1,677	3,432
	7,143,619	**6,390,581**	**6,327,454**	**5,687,963**

21. OTHER INCOME

Gain on disposal of property and equipment	87	210	-	-
Gain on lease termination	206	-	206	-
Interest income	7,757	8,433	934	581
Miscellaneous income	218,667	109,429	185,496	49,008
Reversal of impairment on property, plant and equipment (Note 3)	-	55,772	-	92,708
Operating lease revenue	35,479	40,152	35,479	40,152
Decrease in provision for leave	-	18	-	-
Reversal of inventory write down (Note 7)	2,169	22,555	1,654	22,460
Foreign exchange gain	67,950	88,380	14,318	25,250
Decrease in provision for contingent liabilities	9,808	-	9,808	-
Surcharge sales	1,573	1,086	1,573	1,086
Tolling fees – revenue from contracts with customers	67,907	49,854	-	-
	411,603	**375,889**	**249,468**	**231,245**

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

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Staff costs (Note 25)	1,123,978	1,155,653	947,553	981,081
Depreciation on property and equipment	172,119	139,514	143,457	114,630
Auditors' remuneration	13,641	12,866	8,740	8,055
Directors' emoluments:				
As directors	15,864	14,245	15,864	14,245
As executives	167,709	154,644	167,709	154,644
Legal and professional fees	46,690	38,912	43,364	30,932
Amortisation of right of use asset	265	265	265	265
Amortisation of intangible assets	25,499	20,799	23,733	19,254
Insurance	61,812	50,662	48,663	41,284
Loss on disposal of property and equipment	904	708	904	706
Loss on lease termination	-	5,679	-	5,679
Foreign exchange loss	278,622	88,822	258,232	51,113
Office expenses	44,561	59,765	36,961	53,095
Consultancy fees	36,835	54,463	26,732	38,034
Computer costs	84,183	64,635	78,408	58,265
Travel	37,545	21,464	26,013	14,247
Maintenance, subscriptions and donations	17,338	15,497	13,589	12,151
Bank charges	41,772	42,499	37,212	37,098
Others	53,669	68,924	51,974	23,093
	2,223,006	**2,010,016**	**1,929,373**	**1,657,871**

23. SELLING AND DISTRIBUTION EXPENSES

Transport	350,491	279,690	269,448	225,178
Advertising and promotion	646,523	758,746	590,144	702,943
Inventory write-downs (Note 7)	3,203	42,988	-	38,051
Bad debts written off during the year	6,343	50,755	-	6,048
Depot expenses	166,923	148,538	151,323	133,614
Amortization on right of use asset	173,161	147,695	111,555	92,407
Others	13,541	12,868	12,427	12,753
	1,360,185	**1,441,280**	**1,134,897**	**1,210,994**

24. FINANCE COSTS

Interest on loans and overdraft	116,008	98,898	102,147	89,784
Interest on lease liability (Note 30)	38,684	31,582	29,102	24,213
Interest on short term notes (Note 17)	61,418	52,805	61,418	52,805
	216,110	**183,285**	**192,667**	**166,802**

25. STAFF COSTS

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Salaries and wages	905,009	937,446	763,832	796,814
Defined contribution plan	17,082	16,078	4,595	4,034
Leave provision	-	7,367	-	7,367
Medical benefits	11,056	18,706	9,142	15,114
Insurance	104,788	99,703	94,580	90,397
Staff general costs	70,805	63,859	63,935	58,184
Training and development	15,238	12,494	11,469	9,171
Staff costs (Note 22)	**1,123,978**	**1,155,653**	**947,553**	**981,081**
Salaries and wages (Note 20)	262,862	260,134	213,290	213,046
Total staff costs	**1,386,840**	**1,415,787**	**1,160,843**	**1,194,127**

26. PROFIT BEFORE TAX

The profit before tax is stated after charging: -				
Depreciation of property, plant and equipment (Note 3)	231,459	199,443	181,243	148,748
Amortisation of right of use assets (Note 5)	182,847	155,895	111,820	92,672
Amortisation of intangible assets (Note 4)	25,499	20,799	23,733	19,254
Directors' emoluments:				
As directors (Note 22)	15,864	14,245	15,864	14,245
As executives (Note 22)	167,709	154,644	167,709	154,644
Auditors' remuneration (Note 22)	13,641	12,866	8,740	8,055
Loss on disposal of property, plant and equipment (Note 22)	904	708	904	706
Finance costs (Note 24)	216,110	183,285	192,667	166,802
Foreign exchange loss (Note 22)	278,622	88,822	258,232	51,113
And after crediting: -				
Interest income (Note 21)	7,757	8,433	934	581
Operating lease income (Note 21)	35,479	40,152	35,479	40,152
Gain on disposal of property, plant and equipment (Note 21)	87	210	-	-
Foreign exchange gain (Note 21)	67,950	88,380	14,318	25,250

27. BASIC AND DILUTED EARNINGS PER SHARE

Net profit attributable to ordinary shareholders (KShs'000)	**824,015**	**731,230**	**526,531**	**666,677**
Weighted average number of ordinary shares in '000'	**142,362**	**106,772**	**142,362**	**106,772**

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

There were no dilutive potential shares as at 31 December 2022 and as at 31 December 2021.

28. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs'000**	**2021 KShs'000**
Cash and bank balances	578,989	676,874	469,162	538,607
Bank overdraft (Note 15)	(507,715)	(15,053)	(495,877)	(8,297)
Cash and cash equivalents	**71,274**	**661,821**	**(26,715)**	**530,310**

29. PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments

(i) As lessor:
The group has entered into commercial property leases on its surplus office and manufacturing building and certain items of machinery. These non-cancellable leases have remaining term of three years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The total future minimum rentals receivable from third parties under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs'000**	**2021 KShs'000**
Within 1 year	12,896	13,111	12,896	13,111
Within 5 years	-	1,182	-	1,182
	12,896	**14,293**	**12,896**	**14,293**

b) Provisions

The group is involved in a number of legal proceedings which are yet to be concluded upon. The directors evaluate the status of these exposures on a regular basis to assess the probability of incurring related liabilities. Provisions are recognised when the group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Of the KShs 79 million estimate, KShs 7.6 million has been provided for (2021: KShs 17.4 million).

29. PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES (continued)

	GROUP & COMPANY	
	2022 KShs'000	2021 KShs'000
At 1 January	17,411	7,915
Reversal of provision (Note 21)	(9,808)	-
Provision during the year	-	9,496
At 31 December	**7,603**	**17,411**

c) The group's capital commitments as at year end were nil (2021: Nil).

d) Bank facilities

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Letters of credit	11,354	-	11,354	-
Avalised bills	29,710	12,729	29,710	12,729
Documentary collections	247,373	455,593	247,373	455,593
Guarantees given by bankers	25,371	2,403	25,371	2,403
	313,808	**470,725**	**313,808**	**470,725**

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

e) Contingent liabilities and IFRIC 23 Income Tax Uncertainties

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

Crown Paints Tanzania Limited received an assessment of TZShs 798,173,922 for the financial period January 2014 to December 2022 relating to various taxes including Corporate tax, Value Added Tax, Withholding tax and Miscellaneous taxes. The company has objected the full amount and is awaiting response from Tanzania Revenue Authority.

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

30. LEASE LIABILITY

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
At 1 January	292,616	207,072	177,627	150,093
Additions	311,954	235,116	288,004	115,822
Interest charge (Note 24)	38,684	31,582	29,102	24,213
Exchange difference	5,677	894	-	-
Lease terminations	(5,613)	(3,834)	(5,614)	(3,834)
Interest payments	(30,534)	(25,072)	(20,952)	(17,703)
Lease principal payments during the year	(188,274)	(153,142)	(119,083)	(90,964)
At 31 December	**424,510**	**292,616**	**349,084**	**177,627**
Non-current	286,266	115,160	277,621	104,419
Current	138,244	177,456	71,463	73,208
Total	**424,510**	**292,616**	**349,084**	**177,627**

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Financial assets measured at amortised cost				
Cash and bank balances	578,989	676,874	469,162	538,607
Trade and other receivables	1,611,660	1,458,682	1,251,988	1,175,339
Amounts due from related companies	658,912	231	724,251	40,939
	2,849,561	**2,135,787**	**2,445,401**	**1,754,885**
Financial liabilities measured at amortised cost				
Bank overdraft	507,715	15,053	495,877	8,297
Bank loans	1,027,767	517,821	884,262	396,770
Short term notes	798,263	527,574	798,263	527,574
Lease liabilities	424,510	292,616	349,084	177,627
Amounts due to related companies	39,617	67,326	75,857	89,627
Trade and other payables	2,624,670	2,868,073	2,113,527	2,380,663
	5,422,542	**4,288,463**	**4,716,870**	**3,580,558**

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Interest rate risk

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

	NCBA	KCB
Bank overdraft KShs	Base rate plus 4.1% p.a.	Base rate minus 1% p.a.
Bank overdraft USD	Base rate plus 1.3% p.a.	Base rate minus 1% p.a.
Bank loan KShs	Base rate plus 4.1% p.a.	Base rate minus 1% p.a.
Bank loan USD	Base rate plus 1.3% p.a.	Base rate minus 1% p.a.

Currently, the NCBA and KCB KShs base lending rates are 8.9% and 13%, respectively. NCBA USD base lending rate is 8.0% and KCB 9.475%. The interest on the short-term note is at 91 day treasury bills interest rate plus 1.5%.

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

		GROUP		COMPANY	
		Effect on profit before tax KShs'000	**Effect on equity KShs'000**	**Effect on profit before tax KShs'000**	**Effect on equity KShs'000**
2022	Increase by 2%	(46,675)	(32,672)	(43,568)	(30,498)
	Decrease by 2%	46,675	32,672	43,568	30,498
2021	Increase by 2%	(21,209)	(14,846)	(18,653)	(13,057)
	Decrease by 2%	21,209	14,846	18,653	13,057

CREDIT RISK

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off after all efforts have been exhausted.

The amounts that best represent the group's and company's maximum exposure to credit risk as at 31 December 2022 were as follows:

GROUP

As at 31 December 2022	**Less than 60 days KShs'000**	**61-90 days KShs'000**	**Over 90 days KShs'000**	**Impaired KShs'000**	**Total KShs'000**
Trade receivables	1,500,290	122,662	490,700	(554,855)	1,558,797
Other receivables	34,883	7,060	10,919	-	52,862
Amount due from related companies	81,460	78,581	761,418	(262,547)	658,912
Bank balances	575,148	-	-	-	575,148
	2,191,781	**208,303**	**1,263,037**	**(817,402)**	**2,845,719**

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

As at 31 December 2022	**< 30 days KShs'000**	**31–60 days KShs'000**	**61-90 days KShs'000**	**91-120 days KShs'000**	**>121 days KShs'000**	**Total KShs'000**
Trade receivables						
Expected credit loss rate (%)	4%	8%	19%	26%	100%	
Estimated total gross carrying amount - third party	1,130,552	369,738	122,662	46,084	444,616	2,113,652
Expected credit loss	(45,372)	(29,579)	(23,306)	(11,982)	(444,616)	(554,855)
	1,085,180	**340,159**	**99,356**	**34,102**	**-**	**1,558,797**

As at 31 December 2022	**< 30 days KShs'000**	**31–60 days KShs'000**	**61-90 days KShs'000**	**91-120 days KShs'000**	**>121 days KShs'000**	**Total KShs'000**
Amount due from related companies:						
Expected credit loss rate (%)	5%	11%	17%	24%	32%	
Estimated total gross carrying amount - related parties	27,846	53,614	78,581	29,478	731,940	921,459
Expected credit loss	(1,392)	(5,898)	(13,359)	(7,075)	(234,823)	(262,547)
	26,454	**47,716**	**65,222**	**22,403**	**497,117**	**658,912**

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

COMPANY

As at 31 December 2022	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,201,697	70,749	341,898	(376,764)	1,237,580
Other receivables	7,348	7,060	-	-	14,408
Amount due from related companies	363,965	119,766	1,213,133	(972,613)	724,251
Bank balances	468,547	-	-	-	468,547
	2,041,557	**197,575**	**1,555,031**	**(1,349,377)**	**2,444,786**

As at 31 December 2022	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables						
Expected credit loss rate (%)	3%	8%	19%	26%	100%	
Estimated total gross carrying amount - third party	927,172	274,525	70,749	32,670	309,228	1,614,344
Expected credit loss	(23,638)	(21,962)	(13,442)	(8,494)	(309,228)	(376,764)
	903,534	**252,563**	**57,307**	**24,176**	**-**	**1,237,580**

As at 31 December 2022	< 30 days KShs'000	31-60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Amount due from related companies:						
Expected credit loss rate (%)	15%	28%	45%	56%	71%	
Estimated total gross carrying amount - related parties	268,793	95,172	119,766	79,686	1,133,447	1,696,864
Expected credit loss	(40,319)	(26,648)	(53,895)	(44,624)	(807,127)	(972,613)
	228,474	**68,524**	**65,871**	**35,062**	**326,320**	**724,251**

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

GROUP

As at 31 December 2021	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,465,915	52,502	378,213	(502,328)	1,394,302
Other receivables	63,352	868	160	-	64,380
Amount due from related companies	46,833	30,297	442,656	(519,555)	231
Bank balances	670,672	-	-	-	670,672
	2,246,772	**83,667**	**821,029**	**(1,021,883)**	**2,129,585**

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

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

COMPANY:

As at 31 December 2021	Less than 60 days KShs'000	61-90 days KShs'000	Over 90 days KShs'000	Impaired KShs'000	Total KShs'000
Trade receivables	1,247,363	14,198	229,293	(325,156)	1,165,698
Other receivables	9,641	-	-	-	9,641
Amount due from related companies	156,556	54,230	877,693	(1,047,540)	40,939
Bank balances	537,649	-	-	-	537,649
	1,951,209	68,428	1,106,986	(1,372,696)	1,753,927

As at 31 December 2021	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>121 days KShs'000	Total KShs'000
Trade receivables:						
Expected credit loss rate (%)	3%	12%	31%	47%	100%	
Estimated total gross carrying amount - third party	961,271	221,507	32,079	27,297	248,700	1,490,854
Expected credit loss	(28,241)	(25,407)	(10,105)	(12,703)	(248,700)	(325,156)
	933,030	196,100	21,974	14,594	-	1,165,698
Amount due from related companies:						
Expected credit loss rate (%)	40%	55%	62%	75%	100%	
Estimated total gross carrying amount - related parties	33,454	7,483	26,775	29,318	991,449	1,088,479
Expected credit loss	(13,376)	(4,116)	(16,601)	(21,998)	(991,449)	(1,047,540)
	20,078	3,367	10,174	7,320	-	40,939

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The group's main operations are concentrated in Kenya and its assets and liabilities are reported in the local currency. It has transactions in foreign currency, which are mainly denominated in US Dollars.

The balances in foreign currencies were as follows:

	GROUP		COMPANY	
	2022 KShs'000	2021 KShs'000	2022 KShs'000	2021 KShs'000
Assets in foreign currencies				
Trade and other receivables	829	2,130	-	-
Cash and bank balances	7,494	60,188	2,543	42,622
Foreign currency assets	8,323	62,318	2,543	42,622
Liabilities in foreign currencies				
Payables	(866,902)	(1,305,991)	(757,837)	(1,170,685)
Bank overdraft	(136,215)	(7,785)	(124,376)	(1,027)
Bank loans	(549,795)	(249,815)	(473,188)	(164,520)
Foreign currency liabilities	(1,552,912)	(1,563,591)	(1,355,401)	(1,336,232)
Net foreign currency liability position	(1,544,589)	(1,501,273)	(1,352,858)	(1,293,610)

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 KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2022	Increase in US$ by 4%	(61,784)	(43,249)	(54,114)	(37,880)
	Decrease in US$ by 4%	61,784	43,249	54,114	37,880
2021	Increase in US$ by 4%	(60,051)	(42,036)	(51,744)	(36,221)
	Decrease in US$ by 4%	60,051	42,036	51,744	36,221

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

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

GROUP

As at 31 December 2022	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(507,715)	-	-	-	-	-	(507,715)
Lease liability	(22,095)	(22,529)	(11,750)	(21,019)	(124,104)	(326,093)	(527,590)
Bank loans	(198,405)	(221,444)	(272,031)	(243,186)	(117,045)	(130,287)	(1,182,398)
Short term notes	(179,340)	(262,834)	(370,586)	(1,095)	-	-	(813,855)
Trade payables	(1,627,350)	(185,643)	(89,290)	(106,441)	(104,625)	-	(2,113,349)
Other payables	(81,938)	-	-	-	-	-	(81,938)
Accruals	(429,383)	-	-	-	-	-	(429,383)
Amounts due to related companies	(21,474)	(10,268)	(7,875)	-	-	-	(39,617)
Total financial liabilities	(3,067,700)	(702,718)	(751,532)	(371,741)	(345,774)	(456,380)	(5,695,846)

As at 31 December 2021	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(15,053)	-	-	-	-	-	(15,053)
Lease liability	(11,589)	(20,025)	(10,565)	(9,208)	(18,144)	(254,904)	(324,435)
Bank loans	(239,443)	(31,160)	(10,604)	(17,258)	(10,604)	(295,670)	(604,739)
Short term notes	(152,805)	(282,784)	(99,071)	-	-	-	(534,660)
Trade payables	(1,855,095)	(278,999)	(69,181)	(68,944)	(111,191)	-	(2,383,410)
Other payables	(44,206)	-	-	-	-	-	(44,206)
Accruals	(440,457)	-	-	-	-	-	(440,457)
Amounts due to related companies	(35,862)	(12,834)	-	(5,765)	(12,865)	-	(67,326)
Total financial liabilities	(2,794,510)	(625,802)	(189,421)	(101,175)	(152,804)	(550,574)	(4,414,286)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

COMPANY At 31 December 2022	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(495,877)	-	-	-	-	-	(495,877)
Lease liabilities	(14,379)	(16,969)	(6,190)	(13,303)	(75,204)	(316,818)	(442,863)
Bank loans	(173,846)	(219,305)	(269,065)	(118,457)	(65,284)	(86,676)	(932,633)
Short term notes	(179,340)	(262,834)	(370,586)	(1,095)	-	-	(813,855)
Trade payables	(1,358,980)	(169,092)	(87,261)	(105,916)	(84,566)	-	(1,805,815)
Other payables	(70,609)	-	-	-	-	-	(70,609)
Accruals	(237,103)	-	-	-	-	-	(237,103)
Amounts due to related companies	(57,741)	(4,994)	(391)	-	(12,731)	-	(75,857)
Total financial liabilities	(2,587,875)	(673,194)	(733,493)	(238,771)	(237,785)	(403,494)	(4,874,612)

COMPANY At 31 December 2021	< 30 days KShs'000	31–60 days KShs'000	61-90 days KShs'000	91-120 days KShs'000	>120 days KShs'000	>365 days KShs'000	Total KShs'000
Financial liabilities							
Bank overdraft	(8,297)	-	-	-	-	-	(8,297)
Bank loans	(185,615)	(24,155)	(8,220)	(13,378)	(8,220)	(229,202)	(468,790)
Short term notes	(152,805)	(282,784)	(99,071)	-	-	-	(534,660)
Trade payables	(1,688,391)	(199,133)	(37,227)	(49,016)	(72,288)	-	(2,046,055)
Other payables	(34,542)	-	-	-	-	-	(34,542)
Accruals	(307,127)	-	-	-	-	-	(307,127)
Lease liabilities	(7,624)	(13,174)	(6,950)	(6,058)	(11,937)	(167,700)	(213,443)
Amounts due to related companies	(36,418)	(24,905)	(5,986)	(914)	(21,404)	-	(89,627)
Total financial liabilities	(2,420,819)	(544,151)	(157,454)	(69,366)	(113,849)	(396,902)	(3,702,541)

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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

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

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

32. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

b) Fair value hierarchy

The group measures all property, plant and equipment except land and capital work in progress (WIP) 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

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Assets measured at fair value:

GROUP	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2022				
ASSETS				
Property, plant and equipment	-	-	**1,695,940**	**1,695,940**
31 December 2021				
ASSETS				
Property, plant and equipment	-	-	**1,714,007**	**1,714,007**

COMPANY	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2022				
ASSETS				
Property, plant and equipment	-	-	**1,392,617**	**1,392,617**
31 December 2021				
ASSETS				
Property, plant and equipment	-	-	**1,410,601**	**1,410,601**

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

Reconciliation of level 3 assets

	GROUP		COMPANY	
	2022 KShs 000	2021 KShs 000	2022 KShs 000	2021 KShs 000
At 1 January	1,714,007	1,172,049	1,410,601	1,172,049
Additions	212,933	301,920	177,782	259,871
Transfer from WIP	3,506	-	-	-
Disposals	(14,751)	(4,283)	(14,523)	(4,214)
Revaluation adjustment	-	120,700	-	38,938
Reversal of impairment	-	55,301	-	92,237
Reclassification	-	257,472	-	-
Exchange difference	11,704	9,297	-	-
Depreciation charge	(231,459)	(198,449)	(181,243)	(148,280)
At 31 December	**1,695,940**	**1,714,007**	**1,392,617**	**1,410,601**

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

32. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

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.

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 Executive Management Committee comprising of the executive directors is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Operating Segments

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

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

The adhesives segment manufactures and sells adhesives.

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

33. OPERATING SEGMENT INFORMATION (continued)

Segment information is as presented below.

31 December 2022

Assets and liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	9,195,576	116,599	(107,341)	9,204,834
Investment in subsidiary	938,892	-	(938,892)	-
Total assets	**10,134,468**	**116,599**	**(1,046,233)**	**9,204,834**
Segment liabilities	**6,255,790**	**77,104**	**(817,407)**	**5,515,487**

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	**274,179**	**335**	**-**	**274,514**
Depreciation and amortisation	**439,183**	**623**	**-**	**439,806**
Revenue				
Sales to external customers	10,993,058	395,750	-	11,388,808
Inter segment sales	531,960	138,559	(670,519)	-
Interest income	7,757	-	-	7,757
Other income	402,861	985	-	403,846
Interest expense	**214,495**	**1,615**	**-**	**216,110**
Impairment loss on investment in subsidiaries	**(75,385)**	**-**	**-**	**(75,385)**
Results				
Operating results	1,080,342	(7,472)	-	1,072,870
Income tax expense	(248,860)	5	-	(248,855)
Profit for the year	**831,482**	**(7,467)**	**-**	**824,015**

33. OPERATING SEGMENT INFORMATION (continued)

31 December 2021

Assets and liabilities	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Segment assets	7,808,972	74,204	(75,828)	7,807,348
Investment in subsidiary	1,014,277	-	(1,014,277)	-
Total assets	**8,823,249**	**74,204**	**(1,090,105)**	**7,807,348**
Segment liabilities	**4,953,734**	**27,238**	**(603,813)**	**4,377,159**

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - property, plant and equipment and intangible assets	**336,657**	**350**	**-**	**337,007**
Depreciation and amortisation	**375,552**	**585**	**-**	**376,137**
Revenue				
Sales to external customers	10,388,257	344,923	-	10,733,180
Inter segment sales	397,844	107,965	(505,809)	-
Interest income	8,433	-	-	8,433
Other income	366,902	555	-	367,457
Interest expense	**182,919**	**366**	**-**	**183,285**
Impairment loss on investment in subsidiaries	**(5,000)**	**-**	**-**	**(5,000)**
Results				
Operating results	1,128,001	1,080	(4,681)	1,124,400
Income tax expense	(392,385)	(785)	-	(393,170)
Profit for the year	**735,616**	**295**	**(4,681)**	**731,230**

Revenue from external customers	2022 KShs '000	2021 KShs '000
Kenya	9,658,200	9,298,211
Uganda	700,810	553,634
Tanzania	854,949	719,612
Rwanda	174,849	161,723
Total revenue	**11,388,808**	**10,733,180**

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

33. OPERATING SEGMENT INFORMATION (continued)

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	2022 KShs '000	2021 KShs '000
Kenya	1,915,562	1,711,173
Uganda	240,926	277,786
Tanzania	88,242	104,247
Rwanda	31,273	42,566
	2,276,003	**2,135,772**

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

34. STATUS OF THE COMPANY AND SUBSIDIARY COMPANIES

Crown Paints Tanzania Limited, Regal Paints Uganda Limited and Crown Paints Rwanda Limited were profitable in the current year however, they continued to rely on the parent company for provision of working capital. Crown Paints Allied Industries Limited however, reported a loss for the year. The subsidiaries' ability to continue as a going concern depends on the continued support, they receive from the parent company.

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

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

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

35. CAPITAL RISK MANAGEMENT

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

	2022 KShs'000	2021 KShs'000
Share capital	711,810	711,810
Share premium	392,097	392,097
Retained earnings	2,401,032	2,106,701
Equity	**3,504,939**	**3,210,608**
Total borrowings	1,826,030	1,045,395
Less cash and cash equivalents (Note 28)	(71,274)	(661,821)
Net debt	**1,754,756**	**383,574**
Total capital	**5,259,695**	**3,594,182**
Gearing ratio	**33%**	**11%**

36. EVENTS AFTER THE REPORTING PERIOD

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

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

PROXYFORM

CROWN PAINTS KENYA PLC

I/We ____

Share A/c No ____

of (address) ____

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

____

of (address) ____

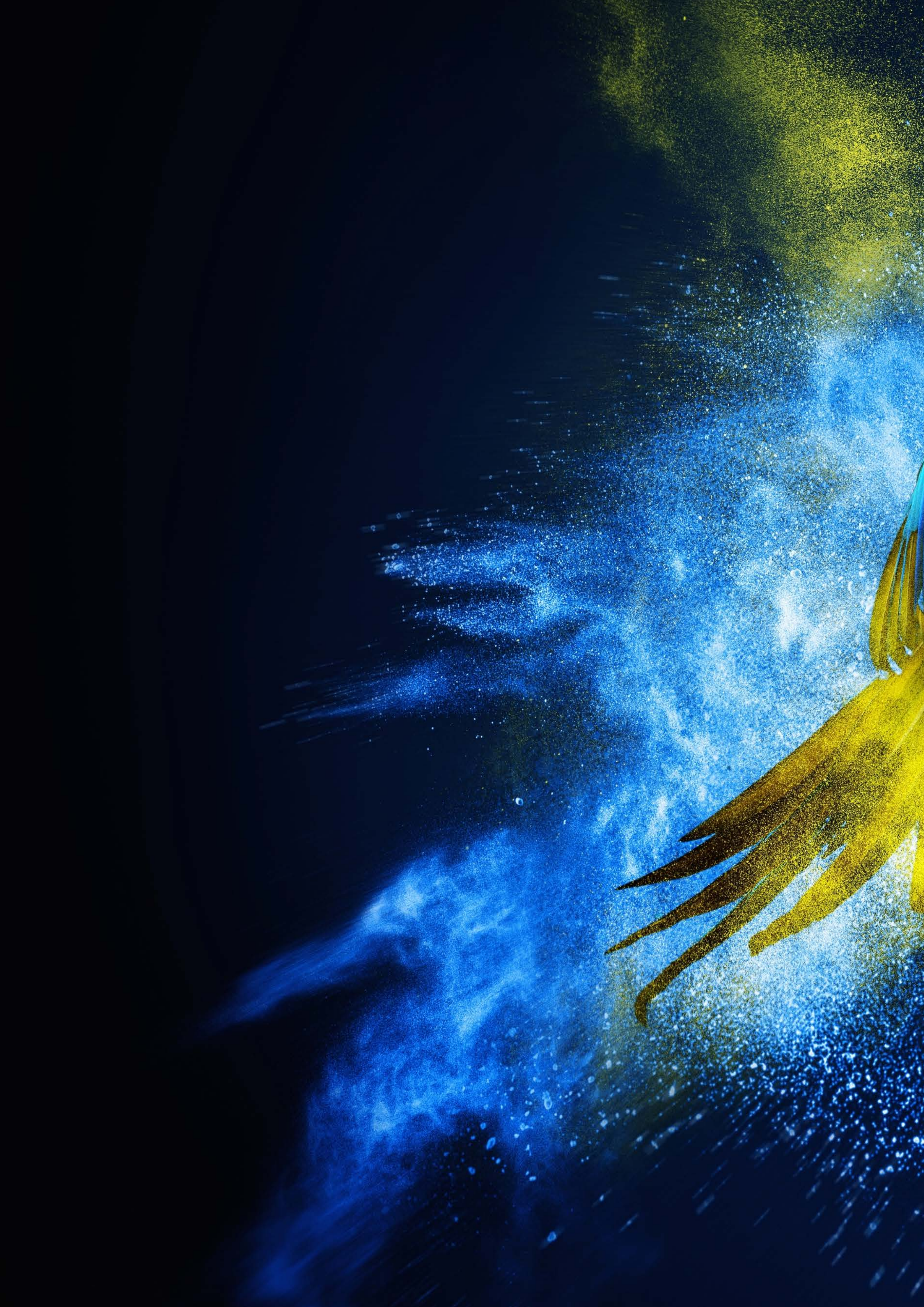
or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Sixty Sixth Annual General Meeting of the Company to be held on Tuesday, 27th June 2023 at 11.00am and at any adjournment thereof.

As witness I/We lay my/our hand (s) this _____day of _________________________ 2023.

Signature __________________________ Signature __________________________

NOTES

NOTES



If you like it... Crown it!

CROWN PAINTS HEAD OFFICE
Likoni Road, Industrial Area, Nairobi
P.O BOX 78848 - 00507
TEL: 020 2165703/5/6, 2032751
EMAIL: info@crownpaints.co.ke,