1999

CROWN - BERGER KENYA LIMITED

Annual Report & Accounts

CROWN-BERGER KENYA LIMITED

Annual Report & Accounts

1999

Contents

Directors and Professional Advisors

BOARD OF DIRECTORS

H Ramji - Chairman
M Charania - Vice Chairman
D R Desai
F G K Maina
M Bhatt
P M Mwati (Alternate to M Bhatt)

CORPORATE SECRETARY

Chunga Associates
Nairobi

INDEPENDENT AUDITORS

Ernst & Young
Nairobi

LEGAL ADVISORS

Hamilton Harrison & Mathews
Nairobi

REGISTERED OFFICE

Crown-Berger Kenya Limited
Mogadishu Road
Industrial Area
PO Box 78848
Nairobi

Directors and Professional Advisors

BOARD OF DIRECTORS

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M Gharania	-	Vice Chairman
D R Desai		
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M Bhatt		
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CROWN FASHION FINISH WORLD

As planned, more dispensing units were installed in Nairobi and steps are being undertaken to increase the Crown fashion finish concept to other parts of Kenya, beginning with Kisumu and Mombasa in order to provide a wider choice of colours to Crown customers, dealers, etc. from upcountry areas.

Your Company has also come out with more fandeck colours to give a range of about 3000 different colours adhering to the more natural and beautiful colours one experiences in Kenya's natural surroundings.

Y2K COMPLIANCE AND UPDATING INFORMATION COMPUTER FACILITY

Your company had already taken up the upgrading for both hardware and software in the year to have Y2K compliance and continuous updating of software in materials, management, sales and distribution areas so as to be in line with the world information technology.

Needless to say, we will have to leverage the information technology power to fulfil the market requirements in sales and distribution and involve dealers and consumers to be on a common network.

RAW MATERIALS

During the first three quarters of the year under review, the prices of major raw materials remained stable in foreign currency, but the depreciation of the Kenya Shilling against the US Dollar adversely affected the advantage in the last quarter, with the uncertainty of crude prices, sharp increase in the prices of petroleum-related raw materials was experienced.

FUTURE OUTLOOK

As per last year's commitment, your Company's management wants to stick to the core business and this means to continuing to farm out allied activities of transportation, raw materials, handling depot stock movements and allied associated activities which do not form the main core paint manufacture.

The Kenyan business situation is not very bright and the economy is not favourable. In such a situation, we will have to press our think tank to do some out of the box thinking. Adhere to perseverance and passion to come out with something new to achieve some good results in future. Nothing comes easily without struggle and hard work.

We are in no doubt going to upgrade our computerisation system in order to increase the scope in information technology. We are also coming out with the help of our collaborators, ICI-Dulux Colour Visualisation System which will benefit architects, contractors and consumers.

SPECIAL THANKS

I would like to place before the excellent team work to execute the activities and cross over the hurdles by my colleagues on Board and your Company's management without whose advice and hard work this year's achievements would not have been fruitful. I am therefore very much thankful to them.

I am also thankful to suppliers who have given us useful tips on procurement in tricky market scenarios.

Tremendous sales support which our dealers, customers and consumers have continued to give us made up for our volumes in difficult times and I therefore remain obliged and grateful to them. It is because of their support that Crown remains Kenya's Nº 1 paint.

Finally, I would like to thank all our dear shareholders for their excellent support. I pray you will continue to do so to encourage us.

H RAMJI
CHAIRMAN

Report of the Independent Auditors

TO THE MEMBERS OF CROWN-BERGER KENYA LIMITED AND SUBSIDIARY

We have audited the accounts on pages 8 to 22 which have been prepared on the basis of the accounting policies set out on pages 13 and 14. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

The Directors are responsible for the preparation of accounts which give a true and fair view of the state of the affairs of the Group and the Company and of their operating results. Our responsibility is to express an independent opinion on the accounts based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. We planned and performed our audit so as to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of significant estimates and judgements made by the Directors in the preparation of the accounts and whether the accounting policies are appropriate in the Group's circumstances, consistently applied and adequately disclosed.

OPINION

In our opinion, proper books of account have been kept and the accounts, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Company and of the Group at 31 December 1999 and of the profit of the Company and the Group and cash flows of the Group for the year then ended and comply with International Accounting Standards and the Companies Act.

ERNST & YOUNG

Certified Public Accountants of Kenya

Nairobi

28 June 2000

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 KShs'000	1998 KShs'000
SALES	1(c) & 15	**1,181,971**	1,180,366
COST OF SALES	16	**(763,002)**	(780,760)
GROSS PROFIT		**418,969**	399,606
OTHER INCOME	17	**4,610**	6,107
		423,579	405,713
EXPENSES:			
Administration and establishment	18	**189,169**	169,331
Selling and distribution	19	**61,028**	69,486
Financial expenses	20	**33,406**	77,550
Other charges and expenses	21	**53,334**	51,608
		336,937	367,975
PROFIT BEFORE TAXATION	22	**86,642**	37,738
TAXATION	23	**(43,686)**	(15,129)
PROFIT AFTER TAXATION		**42,956**	22,610
DIVIDENDS	24	**(43,140)**	(21,570)
RETAINED (LOSS)/PROFIT FOR THE YEAR	13	**(184)**	1,040
EARNINGS PER SHARE	25	**1.99**	1.05
DIVIDEND PER SHARE	26	**2.00**	1.00

Company Balance Sheet

AS AT 31 DECEMBER 1999

	Note	1999 KShs'000	1998 KShs'000
FIXED ASSETS	1(d) & 2(ii)	322,170	341,992
INVESTMENTS	4	82,378	82,378
CURRENT ASSETS:			
Stocks	6	256,433	274,600
Debtors and prepayments	7	225,857	205,293
Amounts due from related companies	8	9,493	7,211
Tax recoverable		-	2,124
Bank and cash balances		2,625	2,634
		494,408	491,862
CURRENT LIABILITIES:			
Bank overdraft	9	100,456	148,212
Current portion of loans	10	-	45,367
Creditors and accruals	11	192,027	127,840
Amounts due to related companies	8	6,281	8,532
Dividend payable		21,570	21,570
Tax payable		17,946	-
		338,280	351,521
NET CURRENT ASSETS		156,128	140,341
		560,676	564,711
SHAREHOLDERS' FUNDS:			
Share capital	12	107,850	107,850
Reserves	13(ii)	437,341	436,291
		545,191	544,141
DEFERRED TAX	14	15,485	14,570
LOANS	10	-	6,000
		560,676	564,711

The accounts were approved by the Board of Directors on 21 June 2000 and signed on its behalf by:

Mhamud Charania
Director

Patrick M Mwati
Director

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts are prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

(b) Consolidation

The consolidated financial accounts comprise the accounts of Crown-Berger Kenya Limited (the parent company) and its controlled subsidiary Twiga Paints Limited, after the elimination of inter-company transactions.

The accounts of subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

(c) Turnover

Turnover, which comprises the value of goods invoiced during the year less returns, rebates and value added *tax is accounted for on the dispatch of goods/services to customer basis.*

(d) Fixed Assets and Depreciation

Fixed assets are stated at cost or valuation, less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are :

Leasehold building	-	2%
Machinery and equipment	-	10% and 8%
Fixtures & fittings	-	12½%
Motor vehicles	-	20% or 25%
Computers	-	20%

Leasehold buildings are written off over a period of 50 years or estimated length of life of the building, or the lease, whichever is less. Expenditure on improvements to leased premises is amortised over the period of the leases.

Excess depreciation on the revaluation surplus is transferred from the capital reserve to revenue reserve.

(e) Intangible Assets

The Company will continue its policy of capitalising acquired intangible assets (goodwill, trade marks, brand names). Intangible assets are amortized over the term of their useful lives.

2 FIXED ASSETS

(i) THE GROUP

	Leasehold land and buildings KShs'000	Plant & machinery KShs'000	Vehicles KShs'000	Fixtures fittings & Equipment KShs'000	**TOTAL KShs'000**
COST OR VALUATION:					
At 1 January 1999	190,586	169,938	52,174	43,547	**456,245**
Additions	23	3,732	-	3,862	**7,617**
Disposals	-	-	(6,031)	-	**(6,031)**
At 31 December 1999	190,609	173,670	46,143	47,409	**457,831**
COMPRISING:					
Valuation 1996	124,998	51,192	-		**176,190**
Cost	65,611	122,478	46,143	47,409	**281,641**
	190,609	173,670	46,143	47,409	**457,831**
DEPRECIATION:					
At 1 January 1999	7,518	25,648	41,585	27,720	**102,471**
Charge for the year	3,812	13,890	4,588	6,508	**28,796**
Eliminated on disposals		-	(5,245)	-	**(5,245)**
At 31 December 1999	11,330	39,538	40,928	34,226	**126,022**
NET BOOK AMOUNT:					
At 31 December 1999	179,279	134,132	5,215	13,183	**331,809**
At 31 December 1998	183,068	144,289	10,589	15,827	**353,773**

The assets other than fixtures and fitting were revalued on 31 December 1996. The revaluation amounts have *been incorporated in these accounts. The bases of valuation were:*

Leasehold land and buildings	-	Open market value
Plant and machinery	-	Open market value
Others	-	Depreciated replacement cost

The valuation was undertaken by independent professional valuers Milligan & Company Limited. The valuation surplus was credited to capital reserves.

The fixtures and fittings are stated at cost.

4 INVESTMENTS

	1999 KShs'000	1998 KShs'000
Investment in Twiga Paints Limited		
1,375,000 ordinary shares of KShs 20.00 each	**82,378**	82,378

5 INTANGIBLE ASSET

The intangible asset relates to the purchase consideration for the assignment of agreement to use DUCO brand name and technical information. The cost is being amortised over ten years.

6 STOCKS

	GROUP		COMPANY	
	1999	*1998*	***1999***	*1998*
	KShs'000	*KShs'000*	***KShs'000***	*KShs'000*
Finished goods	**129,383**	108,196	**110,127**	89,051
Raw materials	**146,306**	185,549	**146,306**	185,549
	275,689	293,745	**256,433**	274,600

7 DEBTORS

Amounts falling due within one year:				
Trade debtors	**222,979**	205,961	**211,353**	191,918
Other debtors	**12,603**	4,895	**12,485**	4,452
Prepayments	**2,019**	8,924	**2,019**	8,923
	237,601	219,780	**225,857**	205,293

8 RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 64% of the Company's shares. The remaining 36% of the shares are widely held. The ultimate parent of the Group is Barclays Holdings Limited incorporated in Belize Off-Shore Centre.

	GROUP		*COMPANY*	
	1999	1998	**1999**	1998
	KShs'000	KShs'000	**KShs'000**	KShs'000
Outstanding balances arising from sale/purchase of goods/services:				
Twiga Paints Limited	**(6,988)**	-	**(6,989)**	330
Crown Paints and Building Products Limited	**16,481**	(1,302)	**16,482**	6,881
Crown-Berger Kenya Limited	**11,296**	6,896	**-**	-
	20,789	5,594	**9,493**	7,211
Payables to related parties:				
Crown Paints & Building Products Limited	**1,553**	339	**1,553**	-
Twiga Paints Limited	**4,728**	-	**4,728**	8,532
	6,281	339	**6,281**	8,532

FOR THE YEAR ENDED 31 DECEMBER 1999

	Share Premium KShs'000	Revaluation Reserve KShs'000	Accumulated Profit KShs'000	**TOTAL KShs'000**
(ii) COMPANY				
Balance at 31 December 1998	80,174	249,494	106,623	**436,291**
Transfer of excess depreciation on the revaluation surplus		(11,528)	11,528	-
Retained profit for the year	-	-	1,050	**1,050**
Balance at 31 December 1999	80,174	237,966	119,201	**437,341**

	GROUP		COMPANY	
	1999 KShs'000	*1998* KShs'000	**1999 KShs'000**	*1998* KShs'000
14 DEFERRED TAX				
The provision for deferred tax comprises:				
Excess of tax wear and tear allowance over depreciation	**16,666**	14,570	15,485	14,570
15 SALES				
Decorative Paints	**975,715**	968,928	**930,107**	932,847
Industrial Paints	**34,073**	42,197	**21,543**	29,792
V. R. Range	***119,626***	*117,710*	***80,039***	*78,120*
Plastic	**52,557**	51,531	**52,556**	51,532
	1,181,971	1,180,366	**1,084,245**	1,092,291
16 COST OF SALES				
Raw materials	**650,428**	671,060	**589,342**	617,371
Salaries and wages	**59,980**	49,704	**57,074**	46,478
Depreciation of plant and machinery	**22,385**	22,013	**20,805**	20,418
Machinery repairs and maintenance	***9,938***	*12,492*	***9,938***	*12,493*
Fuel, water and electricity	**8,111**	14,935	**8,082**	14,909
Other	**12,160**	10,556	**6,511**	6,469
	763,002	780,760	**691,752**	718,138
17 OTHER INCOME				
Interest income	**571**	1,771	**571**	1,771
Gain on disposal of fixed assets	**1,776**	1,011	**1,286**	554
Miscellaneous income	**2,263**	3,325	**481**	3,324
	4,610	6,107	**2,338**	5,649

Notes to the Accounts (CONT'D)

FOR THE YEAR ENDED 31 DECEMBER 1999

	GROUP		COMPANY	
	1999	1998	**1999**	1998
	KShs'000	KShs'000	**KShs'000**	KShs'000
22 PROFIT BEFORE TAXATION				
The profit before taxation is stated after charging:				
Depreciation	**28,796**	28,220	**26,654**	26,077
Directors emoluments: Fees	**3,750**	3,931	**3,750**	3,931
Auditors' remuneration	**1,200**	1,200	**1,000**	1,000
Interest payable	**27,535**	69,878	**27,535**	69,860
Exchange losses	**5,080**	684	**5,080**	684
And after crediting:				
Interest income	**571**	1,771	**571**	1,771
Gain on disposal of fixed assets	**1,776**	1,012	**1,286**	554
23 TAXATION				
Current tax at 32.5 % (1998:32.5 %) on				
the taxable profit for the year	**36,529**	15,129	**31,870**	12,665
Deferred tax	**2,097**	-	**915**	-
	38,626	15,129	**32,785**	12,665
Under-provision in previous year	**5,060**	-	**3,785**	-
	43,686	15,129	**36,570**	12,665

Tax assessments have been agreed with the Income Tax Department up to and including the year ended 31 December 1997. From 1998 tax assessments have been filed with the Income Tax Department on a self assessment basis and no queries have been raised.

24 DIVIDENDS				
Interim (paid)	**21,570**	-	**21,570**	-
Final (proposed)	**21,570**	21,570	**21,570**	21,570
	43,140	21,570	**43,140**	21,570

Payments of the dividends is subject to withholding tax at the rate of 5% for residents and 10% for non residents.

25 EARNINGS PER SHARE

Earnings per share are calculated on the profit after tax on the average number of ordinary shares in issue during the year .

26 DIVIDEND PER SHARE

Dividend per share is calculated on dividends of KShs 43.14 million (1998: KShs 21.57 million) on the number of shares in issue at the respective balance sheet date.

Proxy Form

CROWN-BERGER KENYA LIMITED

I/We ____

of ____

being a member/members of Crown-Berger Kenya Limited hereby appoint _______________________

____

____

of ____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the 43rd Annual General Meeting of the Company to be held at the Berger Factory, Mogadishu Road, Nairobi on Tuesday 8 August 2000 at 3.00pm and at any adjournment thereof.

Signed/Sealed this _______________ day of ______________________________ 2000

NOTES

1. In the case of a corporation the proxy must be under the company seal or the hand of an officer or attorney duly authorised on their behalf.
2. To be valid the proxy form should be completed and deposited with Secretaries not less than 48 hours before the time for holding the meeting or adjourned meeting.

CHUNGA ASSOCIATES
RAHIMTULLA TOWER
PO BOX 41968
NAIROBI