ANNUAL REPORT AND ACCOUNTS 2004

CROWN-BERGER (K) LTD

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 48th Annual General Meeting of the Company will be held at the Crown Berger Factory, Mogadishu Road, Nairobi on Wednesday 27th July 2005 at 3.00pm to conduct the following business:

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

2 To read the notice convening the meeting.

3 To consider and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31st December 2004 together with the Directors' and Auditors' Reports thereon.

4 To approve the Directors' remuneration.

5 To elect directors:

   i) Mr. M Bhatt retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
   ii) Mr HHRJ Charania retires from the office in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
   iii) Mr R K Rao who was appointed an additional director on 31 March 2005, retires from office in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for re-election.

6 To authorise the Directors to fix the remuneration of the Auditors, Ernst & Young.

BY ORDER OF THE BOARD

Fiona C. Fox
For CHUNGA ASSOCIATES
SECRETARIES

Date: 20th May 2005

P.O. Box 41968
00100 - NAIROBI

NB: In accordance with section 136 (2) of the Companies Act (Cap. 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. Proxy forms should be returned to the Secretaries, P.O. Box 41968, 00100 - Nairobi, to arrive not later than 48 hours before the meeting or any adjournment thereof. A form of proxy is provided at the end of this report.

PRINCIPAL PLACE OF BUSINESS

Mogadishu Road
P.O.Box 78084
Nairobi.

REGISTERED OFFICE

Mogadishu Road
P.O.Box 78084
Nairobi.

BANKERS

Barclays Bank of Kenya Ltd
P.O.Box 18060
Nairobi.

SOLICITORS

Hamilton Harrison and Mathews
ICEA Building
P.O.Box 30333
Nairobi.

SECRETARY

Chunga Associates
P.O.Box 41968
Nairobi.

AUDITORS

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

CHAIRMAN'S STATEMENT

It is my pleasure to present the Annual Report and the Financial Statements of your company for the year ended December 31, 2004.

Overview and Performance
At Crown-Berger Kenya Limited, CBKL, our aim is to shape a successful future for our company, our customers, our employees and the future generations.

This report has been designed to show our investors and shareholders how CBKL combines economic success, social responsibility and environmental protection, and to give you an insight into Kenya's leading paint manufacturer.

Kenya's Economic Performance
Despite the global turnaround and the optimism expressed by the Honorable Minister of Finance, the Kenyan economy showed little resilience in 2004. The economy grew by 4.3% in 2004 up from 2.8% in 2003. Inspite of this growth, rising domestic interest rates, a strong Kenya Shilling and uncertain bond market, gives an indication of a continuation of the previous years recessionary trend.

The effect of the above was a further reduction in activity in the construction industry both in terms of new starts as well as refurbishments to existing structures.

CBKL - A New Paradigm
Given the continued decline in the Kenyan market, the CBKL team took steps to re-focus its efforts on existing and new product lines that would support the present and the future growth. Additionally, CBKL identified and targeted prospects within the CBKL brands, and focused significant effort on the development of profit generating programs geared to increase revenue and profitability into the future. We are proud of what we have achieved, and I would like to take this opportunity to thank the employees for their exceptional efforts - our success would not have been possible without them.

Strategy for Sustainable Success
Four strategic guidelines form the basis of our development path. These are:

- Have the best team in the industry
- Help our customers to be more successful
- Earn a premium on our cost of capital
- Ensure sustainable growth

The CBKL strategy ensures that our business activities take account of the economic, environmental and social challenges of the future, by reducing the inherent risk associated with investments in low growth markets. Our goal is to achieve long-term growth and create value for us, our customers, our shareholders and society.

Measurable Sustainable Success
Despite the continued recessionary trend, CBKL posted a marginal increase in turnover given management's acceptance of sales with smaller margins. Rising input costs and the aforementioned reduction in profit margins, drove down operating profit and net profit.

Business Success is our Responsibility
I believe that performing successfully as a business is our prime responsibility. Progress and success need a solid economic foundation now and in the future. Additionally, our success benefits directly and indirectly on the economy, our customers, our partners and society, because the result is competitive products, jobs, opportunities for customers and suppliers, and investment in the future. What is also paramount is the protection of the environment for this and future generations.
The future also holds a number of challenges for our industry and though there is uncertainty, I believe that we have the people and the talent to be successful regardless of domestic economic conditions.

In essence, I must re-iterate the need for CBKL to focus its efforts on developing opportunities in East Africa, and NEPAD.

New Product Development
I am happy to announce that CBKL has taken the initiative to introduce a completely new and superior product range named Crown Solo. This new and innovative product is positioned as a premium brand and currently stands uncontested in the industry. I believe that the market is ready for this brand and it is my opinion that this product range will in time be recognised for its superior quality.

We have also launched an automotive range called Nexa Auto Colour, as per our distribution license. This brand increases our stable of products and I believe that we have the requisite sales and marketing skills to be successful in this new product line.

Investing in the Future - UNIBILT Factory Relocation
Last year, I reported that UNIBILT was operating at 60% capacity and that we believed that UNIBILT had tremendous potential. Our current utilisation is 60% and we believe that additional growth is possible. I support management's request to relocate the tin operation to our Likoni Road site and to construct a building to house the equipment to be completed by the end of 2005.

More Colours - Fan Deck Ambiance (SOLO Brand)
We are adding a new Fan Deck Ambiance for the SOLO brand thereby increasing the range in colours in excess of 1,000. This will support our customers' needs and their demands, by increasing our product range and our delivery time.

WAN - Wide Area Network
We are also working on a Wide Area Network that will allow us real time access to our sites and outlets to facilitate monitoring and control. Additionally, we hope to connect to our dealers in order to monitor their stock levels and to manage their orders.

Environmental Compliance - NEMA Audit
I would like to take this opportunity to congratulate the management team for their efforts in preparing CBKL for the NEMA audit. As a result of their exceptional work, CBKL has been certified compliant with NEMA's strict policy for safety, health and environmental regulations.

The Future - Perspectives on Growth
It is without a doubt that opportunities for growth exist within Kenya and the African continent. Balancing the present and the future is essential in ensuring that growth is achieved. Given our position within the industry, I am of the opinion that we must make efforts to expand within the region and within Africa.

Building A Stronger and Better Future
The Board of CBKL voted for a zero dividend for the 2004-2005 financial year. This decision was based primarily on the continued impact of the Kenyan recession on CBKL. In an effort to mitigate the impact of present and future recessions, the Board of CBKL has adopted a financial model aimed at the diversification of CBKL portfolio operations. That is, the Board has approved the introduction of new products such as SOLO and Nexa Auto colour, ensured compliance with the NEMA Audit, and approved the relocation of the UNIBILT factory from its current premises to a new site to be constructed at the Likoni Road premises. The benefits expected to accrue include a reduction in the dependency on existing markets for revenue and profit, positioning CBKL competitively in the Kenyan market as leaders in safety, health and environmental protection, and improving efficiencies at the UNIBILT operation given the relative proximity to the CBKL head office.

Mhamud Charania
Chairman

LIST OF LARGEST 10 SHAREHOLDERS AS AT 16/05/05

ACCOUNT NUMBER	NAME (S) AND ADDRESS	NO. OF SHARES	%
0002402	CROWN PAINTS AND BUILDING PRODUCTS LIMITED P.O. BOX 78188, NAIROBI	11,402,855	48.06
0003207	BARCLAY HOLDINGS LIMITED 35 BARRACK ROAD P.O. BOX 1777 BELIZE CITY, BELIZE	3,234,000	13.63
0000590	PRADEEP PATANI P.O. BOX 48673 00100 NAIROBI	557,095	2.35
0000772	MULCHLAND NARSHI SHAH P.O. BOX 44851, NAIROBI	349,433	1.47
0002151	JAPHETH MULINGE MUKUMBU P.O. BOX 51259, NAIROBI	290,675	1.23
0001897	JOHN MURIUKI KIBUCHI P.O. BOX 20105 00200 NAIROBI	243,780	1.03
0088986	MAHENDRA DAHYABHAI PATEL P.O. BOX 178 00606 NAIROBI	224,020	0.94
0002270	MAHENDRA FULCHLAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI P.O. BOX 90393, MOMBASA	200,939	0.85
0014125	DANIEL KARANJA NDUNGU P.O. BOX 24732 - 00502 NAIROBI	129,869	0.55
0007277	THE HERITAGE AII INSURANCE COMPANY LIMITED P.O. BOX 30390 NAIROBI	110,000	0.46
Total number of shares		16,742,666	70.56
AND 2385 other shareholders		6,984,334	29.44
TOTAL		23,727,000	100.00

DISTRIBUTION OF SHAREHOLDERS

Shareholding	No. Of Shares	No. Of Shareholders	% Shares Held
Less than 500	83,704	420	0.35
500 – 5,000	2,180,970	1,663	9.19
5,001 – 10,000	1,036,264	153	4.37
10,001 – 100,000	3,475,496	147	14.65
100,001 – 1,000,000	2,313,711	10	9.75
above 1,000,000	14,636,855	2	61.69
Total:	23,727,000	2,395	100.00

The directors submit their report and the audited financial statements for the year ended 31 December 2004, which show the state of the group's affairs.

1. PRINCIPAL ACTIVITIES
   The principal activities of the company and its subsidiaries are to manufacture and sell paints, adhesives, decorating sundries, PVA emulsion, alkyd resins and tins.

2. GROUP RESULTS
   The results of the group for the year are set out on page 11.

3. COMPANY RESULTS
   The results of the company for the year are set out on page 15.

4. DIVIDENDS
   The directors do not recommend the payment of a dividend. (2003: KShs 32,355,000).

5. BONUS ISSUE
   The directors issued to the shareholders a bonus issue of shares at the rate of 1 (one) bonus share for every 10 (ten) shares held as at the close of business on 9 June, 2004.

6. RESERVES
   The reserves of the group and the company are set out on page 26, Note 12.

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

M. Charania	- Chairman
F.G.K. Maina	
M. Bhatt	
P.M. Mwati	- (Alternate to M. Bhatt)
H.H.R.J Charania	
C.K.V. Rao	- (Alternate to H.H.R.J Charania, Retired on 23.03.05)
A. Gupta	
R.K. Rao	- (Managing Director – Appointed on 31.03.05)

   In accordance with Article 100 of the Articles of Association Mr. M. Bhatt and Mr. H.H.R.J. Charania retire by rotation and being eligible, offer themselves for re-election.

   In accordance with Article 101 of the Articles of Association Mr. R.K. Rao who was appointed as an additional director of the company on 31 March 2005, retires and being eligible, offers himself for re-election.

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

By Order of the Board

Fiona C. fOX
For CHUNGA ASSOCIATES
Secretaries

20th May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2004

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

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

Nothing has come to the attention of the directors to indicate that the group and the company will not remain going concerns for at least the next twelve months from the date of this statement.

Mhamud Charania) Chairman

Patrick Mwati) Director

20th May 2005

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES

We have audited the financial statements on pages 10 to 32 for the year ended 31 December 2004, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 8, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the operating results of the Group and the Company. Our responsibility is to express an independent opinion on the financial statements 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. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2004 and of the profit of the Group and the Company and of the cash flows of the group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

Nairobi

20th May 2005

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	2	316,917	334,011
Work in progress	3	6,553	1,610
Goodwill	4	13,081	19,620
Prepaid leases on leasehold land	5	18,497	18,866
Royalties	7	-	563
		355,048	374,670
CURRENT ASSETS			
Stocks	8	449,702	297,835
Trade and other debtors	9	235,960	227,959
Amounts due from related companies	10(iii)	26,000	-
Tax recoverable	27	6,970	5,720
Bank balances and cash		26,427	22,139
		745,059	553,653
TOTAL ASSETS		1,100,107	928,323
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	11	118,635	107,850
Reserves	12	493,616	453,501
Proposed dividends	13	-	32,355
		612,251	593,706
NON-CURRENT LIABILITIES			
Deferred tax	14	53,472	59,190
CURRENT LIABILITIES			
Bank overdraft	15	39,619	52,220
Loan	16	30,000	-
Commercial paper	17	116,352	58,492
Creditors and accruals	18	175,436	129,256
Amounts due to related companies	10(iii)	72,977	35,459
		434,384	275,427
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		1,100,107	928,323

The financial statements were approved by the Board of Directors on 20th May 2005 and signed on its behalf by:

Mhamud Charania) Chairman

Patrick Mwati) Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
SALES	19	1,225,506	1,157,585
COST OF SALES	20	(816,917)	(730,024)
GROSS PROFIT		408,589	427,561
OTHER INCOME	21	28,977	30,621
		437,566	458,182
EXPENSES:-			
Administration and establishment	22	194,840	184,499
Selling and distribution	23	92,014	110,845
Other charges and expenses	24	61,696	57,863
		348,550	353,207
PROFIT FROM CONTINUING OPERATING ACTIVITIES		89,016	104,975
NET FINANCE COSTS	25	(15,377)	(9,225)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION	26	73,639	95,750
TAXATION	27	(22,739)	(36,584)
NET PROFIT FOR THE YEAR		50,900	59,166
		KShs	KShs
Earnings per share	28	2.15	2.49
		KShs'000	KShs'000
Dividends:			
Proposed for the year	13	-	32,355

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained profits KShs'000	Proposed dividends KShs'000	Total equity KShs'000
At 1 January 2003	107,850	80,174	61,411	274,162	32,355	555,952
Deferred tax over-release (Note 30)	-	-	10,943	-	-	10,943
Restated balance	107,850	80,174	72,354	274,162	32,355	566,895
Transfer of excess depreciation on revaluation net of related deferred tax	-	-	(9,051)	9,051	-	-
Net profit for the year	-	-	-	59,166	-	59,166
Dividends						
- Paid for 2002	-	-	-	-	(32,355)	(32,355)
- Proposed for 2003	-	-	-	(32,355)	32,355	-
At 31 December 2003	107,850	80,174	63,303	310,024	32,355	593,706
At 1 January 2004	107,850	80,174	63,303	310,024	32,355	593,706
Transfer of excess depreciation on revaluation net of related deferred tax	-	-	(9,051)	9,051	-	-
Bonus share issue	10,785	-	-	(10,785)	-	-
Net profit for the year	-	-	-	50,900	-	50,900
Dividends						
- Paid for 2003	-	-	-	-	(32,355)	(32,355)
- Proposed for 2004	-	-	-	-	-	-
At 31 December 2004	118,635	80,174	54,252	359,190	-	612,251

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 KShs'000	2003 KShs'000
Cash flows from operating activities		
Net profit before taxation	73,639	95,750
Adjustments for:-		
Amortisation of ICL royalties	563	563
Depreciation	24,855	21,830
Leasehold land amortisation	369	308
Amortisation of goodwill	6,539	6,539
Foreign exchange loss	5,002	3,296
Interest expense	10,881	5,260
Gain on disposal of plant & equipment	(1,683)	(350)
Operating profit before working capital changes	120,165	133,196
Trade and other debtors	(8,001)	(20,701)
Stocks	(151,867)	(12,164)
Trade creditors and accruals	46,180	(44,757)
Related companies	11,518	63,245
Cash generated from operations	17,995	118,819
Income taxes paid	(29,707)	(37,025)
Interest paid	(10,881)	(5,260)
Net cash (used in)/generated from operating activities	(22,593)	76,534
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,678)	(126,380)
Purchase of leasehold land	-	(7,500)
Work-in-progress	(6,553)	(1,610)
Proceeds on sale of plant and equipment	17,210	350
Disposal of treasury bills and commercial paper	-	74,200
Net cash used in investing activities	(11,021)	(60,940)
Cash flows from financing activities		
Loan proceeds	30,000	-
Borrowings on commercial paper	57,860	10,430
Dividends paid on ordinary shares	(32,355)	(32,355)
Net cash from/(used in) financing activities	55,505	(21,925)
Net increase/(decrease) in cash and cash equivalents	21,891	(6,331)
Cash and cash equivalents at the beginning of the year	(30,081)	(20,454)
Effect of exchange rate changes	(5,002)	(3,296)
Cash and cash equivalents at the end of the year (Note 29)	(13,192)	(30,081)

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	2	228,354	222,915
Work in progress	3	6,553	1,610
Prepaid leases on leasehold land	5	11,144	11,409
Investment in subsidiary companies	6	92,378	92,378
		338,429	328,312
CURRENT ASSETS			
Stocks	8	383,437	263,210
Trade and other debtors	9	182,710	181,125
Amounts due from related companies	10(iii)	192,262	135,513
Tax recoverable	27	11,125	704
Bank balances and cash		12,544	19,086
		782,078	599,638
TOTAL ASSETS		1,120,507	927,950
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	11	118,635	107,850
Reserves	12	472,971	438,132
Proposed dividends	13	-	32,355
		591,606	578,337
NON CURRENT LIABILITES			
Deferred tax	14	43,723	49,096
CURRENT LIABILITIES			
Bank overdraft	15	39,619	52,220
Loan	16	30,000	-
Commercial paper	17	116,352	58,492
Creditors and accruals	18	171,688	126,580
Amounts due to related companies	10(iii)	127,519	63,225
		485,178	300,517
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		1,120,507	927,950

The financial statements were approved by the Board of Directors on 20th May 2005 and signed on its behalf by: -

Mhamud Charania) Chairman

Patrick Mwati) Director

COMPANY PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
SALES	19	1,069,174	1,028,278
COST OF SALES	20	(721,091)	(632,050)
GROSS PROFIT		348,083	396,228
OTHER INCOME	21	37,442	29,837
		385,525	426,065
EXPENSES: -			
Administration and establishment	22	174,380	173,398
Selling and distribution	23	81,866	104,016
Other charges and expenses	24	55,157	51,324
		311,403	328,738
PROFIT FROM CONTINUING OPERATING ACTIVITIES		74,122	97,327
Net finance costs	25	(14,890)	(8,966)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION	26	59,232	88,361
TAXATION	27	(13,608)	(21,732)
NET PROFIT FOR THE YEAR		45,624	66,629
		KShs	KShs
Earnings per share	28	1.92	2.81
Dividends:		KShs'000	KShs'000
Proposed for the year	13	-	32,355

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained profits KShs'000	Proposed dividends KShs'000	Total equity KShs'000
At 1 January 2003	107,850	80,174	101,787	210,954	32,355	533,120
Deferred tax over-release (Note 30)	-	-	10,943	-	-	10,943
Restated balance	107,850	80,174	112,730	210,954	32,355	544,063
Transfer of excess depreciation on revaluation net of related deferred tax	-	-	(9,051)	9,051	-	-
Net profit for the year	-	-	-	66,629	-	66,629
Dividends						
- Paid for 2002	-	-	-	-	(32,355)	(32,355)
- Proposed for 2003	-	-	-	(32,355)	32,355	-
At 31 December 2003	107,850	80,174	103,679	254,279	32,355	578,337
At 1 January 2004	107,850	80,174	103,679	254,279	32,355	578,337
Transfer of excess depreciation on revaluation net of related deferred tax	-	-	(9,051)	9,051	-	-
Bonus share issue	10,785	-	-	(10,785)	-	-
Net profit for the year	-	-	-	45,624	-	45,624
Dividends						
- Paid for 2003	-	-	-	-	(32,355)	(32,355)
- Proposed for 2004	-	-	-	-	-	-
At 31 December 2004	118,635	80,174	94,628	298,169	-	591,606

1 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).

The consolidated financial statements have been prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

b) Consolidation.

The consolidated financial statements comprise the financial statements of Crown-Berger Kenya Limited (the parent company) and its wholly owned subsidiaries Twiga Paints Limited and Unibilt 2003 Limited after elimination of inter-company transactions. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

c) Revenue recognition.

Sales are recognized upon delivery of products and customer acceptance net of rebates, discounts and value added tax.

d) Property, plant, equipment and depreciation.

Property, plant and equipment 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%
Plant and machinery	8% and 10%
Fixtures & fittings	12.5%
Motor vehicles	20% and 25%
Computers	20%

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

e) Intangible assets

Intangible assets (goodwill, trade marks, brand names) are capitalized and amortized over their useful lives.

f) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads.

1. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

f) Stocks (Continued)

Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of the realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Provision is made for obsolete, slow moving and defective stocks.

g) Foreign currency transactions

Transactions during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account.

h) Retirement benefit costs

The company operates a defined contribution pension scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded both by the company and employees.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

i) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

j) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Employees entitlements

The monetary benefits for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

l) Leases on leasehold land

Leases on leasehold land are classified as operating leases. The costs incurred to acquire the land are included in the financial statements as long-term prepayment and amortised on a straight-line basis over the lease period.

m) Held-to-maturity investments

Held-to-maturity investments are initially recognized at cost, being the fair value of the consideration given. After initial recognition, they are measured at amortised cost. Amortised cost is calculated by taking into account any discount over the period to maturity.

n) Dividends

Dividends are charged to reserves in the year to which they relate. Proposed dividends are disclosed as a separate component of equity until approved.

o) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life up to a presumed maximum of 10 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation.

2 PROPERTY, PLANT AND EQUIPMENT

(i) GROUP

	Leasehold 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 January 2004	193,074	221,810	39,851	57,590	512,325
Additions	1,613	11,347	7,489	1,229	21,678
Transfer from work in progress	1,610	-	-	-	1,610
Disposals	-	(17,000)	(2,855)	-	(19,855)
At 31 December 2004	196,297	216,157	44,485	58,819	515,758
Comprising:					
Valuation 1996	102,963	19,880	-	-	122,843
Cost	93,334	196,277	44,485	58,819	392,915
	196,297	216,157	44,485	58,819	515,758
Depreciation					
At 1 January 2004	22,268	71,992	34,802	49,252	178,314
Charge for the year	5,455	14,252	2,064	3,084	24,855
Eliminated on disposals	-	(1,473)	(2,855)	-	(4,328)
At 31 December 2004	27,723	84,771	34,011	52,336	198,841
Net Book Value					
At 31 December 2004	168,574	131,386	10,474	6,483	316,917
At 31 December 2003	170,806	149,818	5,049	8,338	334,011

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated items of property, plant and equipment with a cost of KShs 103,950,298 (2003: KShs 90,094,295) which are still in use. If depreciation had been charged during the year on the cost of these assets at a normal rate, it would have amounted to KShs 16,585,686 (2003: KShs 15,550,316).

2. PROPERTY, PLANT AND EQUIPMENT (Continued)

(ii) COMPANY

	Leasehold 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 2004	155,574	138,210	34,710	51,383	379,877
Additions	1,613	10,409	7,489	1,229	20,740
Transfer from work in progress	1,610	-	-	-	1,610
Disposals	-	-	(2,855)	-	(2,855)
At 31 December 2004	158,797	148,619	39,344	52,612	399,372
Comprising:					
Valuation 1996	102,963	8,283	-	-	111,246
Cost	55,834	140,336	39,344	52,612	288,126
	158,797	148,619	39,344	52,612	399,372
Depreciation					
At 1 January 2004	21,955	58,468	32,800	43,739	156,962
Charge for the year	3,111	9,429	1,379	2,992	16,911
Eliminated on disposals	-	-	(2,855)	-	(2,855)
At 31 December 2004	25,066	67,897	31,324	46,731	171,018
Net Book Value					
At 31 December 2004	133,731	80,722	8,020	5,881	228,354
At 31 December 2003	133,619	79,742	1,910	7,644	222,915

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated items of property, plant and equipment with a cost of KShs 96,759,108 (2003: KShs 82,903,105) which are still in use. If depreciation had been charged during the year on the cost of these assets at a normal rate, it would have amounted to KShs 15,652,067 (2003: KShs 14,625,277).

2. **PROPERTY, PLANT AND EQUIPMENT (Continued)**

The assets other than fixtures, fittings and equipment and motor vehicles were revalued on 31 December 1996. The revaluation amounts have been incorporated in these financial statements. The basis of valuation were: -

Leasehold buildings - Open market value
Plant and machinery - Open market value

The valuation was undertaken by independent professional valuers, Milligan & Company Limited. The revaluation surplus was credited to capital reserves. The fixtures, fittings and equipment and motor vehicles are stated at cost.

3. **WORK IN PROGRESS**

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Cost				
At 1 January	1,610	-	1,610	-
Additions	6,553	1,610	6,553	1,610
Transfer to assets	(1,610)	-	(1,610)	-
At 31 December	6,553	1,610	6,553	1,610

This relates to factory buildings under construction (2003 – factory building extension).

4. **GOODWILL ON CONSOLIDATION**

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Cost				
At 1 January and 31 December	65,390	65,390	-	-
Amortisation				
At 1 January	45,770	39,231	-	-
Charge for the year	6,539	6,539	-	-
At 31 December	52,309	45,770	-	-
Net Book Value	13,081	19,620	-	-

The goodwill was recognised on acquisition of Twiga Paints Limited in 1995. The Board of Directors decided to amortise the goodwill amount in ten equal installments beginning financial year 1997. This is based on the time for assimilating new technology with the present product range and the phased marketing plan required for differing segments under prevailing environmental/competitive situations in markets of five countries in East Africa for which the company has rights.

5. PREPAID LEASES ON LEASEHOLD LAND

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Cost				
At 1 January and 31 December	20,500	13,000	13,000	13,000
Additions	-	7,500	-	-
	20,500	20,500	13,000	13,000
Amortisation				
At 1 January	1,634	1,326	1,591	1,326
Charge for the year	369	308	265	265
At 31 December	2,003	1,634	1,856	1,591
NET BOOK VALUE	18,497	18,866	11,144	11,409

The prepaid leases on leasehold land consist of three leases as follows:

i) Mogadishu Road factory - amortised on straight line basis over the lease period of 89 years. The un-expired lease period as at 31 December 2004 is 42 years.

ii) Likoni Road offices - amortised on straight line basis over the lease period of 89 years. The un-expired lease period as at 31 December 2004 is 42 years.

iii) Unibilt 2003 Limited factory - amortised on straight line basis over the lease period of 72 years. The un-expired lease period as at 31 December 2004 is 70 years.

6. INVESTMENT IN SUBSIDIARIES

Details of investment	Country of incorporation	Activity	Percentage of equity interest	2004 KShs'000	2003 KShs'000
Twiga Paints Limited (1,375,000 ordinary shares of KShs 20 each)	Kenya	Manufacture of paints and decorative products	100%	82,378	82,378
Unibilt 2003 Limited (10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of tins	100%	10,000	10,000
				92,378	92,378

7. ROYALTIES

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Cost				
At 1 January and 31 December	5,631	5,631	-	-
Amortisation				
At 1 January	5,068	4,505	-	-
Charge for the year	563	563	-	-
At 31 December	5,631	5,068	-	-
Net Book Value	-	563	-	-

This relates to the purchase consideration for the assignment of agreement to use DUCO brand name and technical information. The cost has been amortised over ten years.

8. STOCKS

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Finished goods	139,816	118,069	117,042	97,757
Raw materials	307,159	175,836	266,395	165,453
Spare parts	2,415	3,930	-	-
Others	312	-	-	-
	449,702	297,835	383,437	263,210

9. TRADE AND OTHER DEBTORS

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Trade debtors	217,321	199,660	174,154	166,581
Other debtors	11,964	17,147	7,224	5,990
Prepayments	6,675	11,152	1,332	8,554
	235,960	227,959	182,710	181,125

10. RELATED PARTY TRANSACTIONS

The company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 62% of the company's shares. The remaining 38% of the shares are widely held. The ultimate parent company of the Group is Barclays Holdings Limited incorporated in Belize Off-Shore Centre in the United Kingdom.

The following transactions were carried out with related parties:

10. RELATED PARTY TRANSACTIONS (Continued)

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
(i) Services rendered				
Crown Paints & Building Products Limited				
(Service fees - Note 24)	55,157	51,324	55,157	51,324
(ii) Loan to related company				
Infusion Kenya Limited	50,000	-	50,000	-
Crown Foods Limited	10,000	-	10,000	-

Infusion Kenya Limited and Crown Foods Limited are related companies by virtue of common control.

(iii) Outstanding balances arising from sale/purchase of goods/services:

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Receivable from related parties:				
Infusion Kenya Limited	25,000	-	25,000	-
Crown Foods Limited	1,000	-	1,000	-
Unibilt 2003 Limited	-	-	166,262	135,513
	26,000	-	192,262	135,513
Payables to related parties:				
Crown Paints & Building Products Limited	72,977	35,459	72,977	35,459
Twiga Paints Limited	-	-	54,542	27,766
	72,977	35,459	127,519	63,225

Production transfers is at cost. Other sales of goods and services are at arms length and in normal course of business.

11. SHARE CAPITAL

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Authorised:				
25,000,000 ordinary shares of KShs.5 each	125,000	125,000	125,000	125,000
Issued and fully paid:				
23,727,000 (2003: 21,570,000)				
ordinary shares of KShs.5 each	118,635	107,850	118,635	107,850

In June 2004, the issued share capital was increased by the allotment of 2,157,000 ordinary shares of KShs 5 per share by way of a bonus issue at the rate of one bonus share for every ten shares held at the close of business on 9 June 2004 in accordance with article 46 of the company's articles of association.

12. RESERVES

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Share premium	80,174	80,174	80,174	80,174
Revaluation reserve	54,252	63,303	94,628	103,679
Retained profit	359,190	310,024	298,169	254,279
	493,616	453,501	472,971	438,132

13. PROPOSED DIVIDENDS

Final	-	32,355	-	32,355
	KShs	KShs	KShs	KShs
Dividend per ordinary share	-	1.50	-	1.50

The dividend per share in 2003 was calculated on the basis of dividends declared of Kshs 32,355,000 and on 21,570,000 ordinary shares in issue in 2003. No dividend has been declared in 2004. Payments of the dividends is subject to withholding tax at the rate of 5% for residents and 10% for non residents.

14. DEFERRED TAX

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
The provision for deferred tax comprises:				
Accelerated tax on depreciation	49,814	46,011	25,384	20,500
Tax losses	(14,681)	(15,417)	-	-
Other timing differences	18,339	28,596	18,339	28,596
	53,472	59,190	43,723	49,096

15. BANK OVERDRAFT

The bank overdraft is secured by:

(i) Debenture of KShs. 525 million over the assets of the group supported by supplementary charge over LR 209/5792 and LR 209/4275

(ii) Cross guarantee from Twiga Paints Limited of KShs.100 million.

The weighted average interest rate on the overdraft at year-end was 14.5% (2003: 15.75%).

16. LOAN

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Amounts falling due within one year	30,000	-	30,000	-

The loan is secured by:

(i) Debenture of KShs. 525 million over the assets of the group supported by supplementary charge over LR 209/5792 and LR 209/4275

(ii) Cross guarantee from Twiga Paints Limited of KShs.100 million.

The weighted average interest rate on the loan at year-end was 10%.

17. COMMERCIAL PAPER

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Amounts falling due within one year	116,352	58,492	116,352	58,492

The interest rate on the commercial paper is at Treasury Bills Interest rate plus 1.5%.

18. CREDITORS AND ACCRUALS

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Amounts falling due within one year				
Trade creditors	149,748	93,086	149,348	92,731
Other creditors	9,567	17,862	6,938	16,335
Accruals and deferred income	16,121	18,308	15,402	17,514
	175,436	129,256	171,688	126,580

19. SALES

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Decorative paints	1,030,498	966,832	991,410	935,066
Industrial paints	26,525	26,920	4,069	2,874
V.R. range	152,420	161,096	73,695	90,338
Tins	8,685	1,486	-	-
Others	7,378	1,251	-	-
	1,225,506	1,157,585	1,069,174	1,028,278

20. COST OF SALES

Raw materials	715,179	648,863	652,001	565,378
Salaries and wages	39,031	30,284	31,650	28,752
Depreciation of plant and machinery	21,385	15,951	14,126	14,357
Machinery repairs and maintenance	6,966	5,967	6,378	5,967
Fuel, water and electricity	12,214	11,796	10,997	11,740
Others	22,142	17,163	5,939	5,856
	816,917	730,024	721,091	632,050

21. OTHER INCOME

Gain on disposal of plant & equipment	1,683	350	210	350
Miscellaneous income	4,595	15,931	18,788	15,931
Bad debts recovered	22,699	14,340	18,444	13,556
	28,977	30,621	37,442	29,837

22. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs	75,766	78,673	70,535	71,368
Depreciation	3,470	5,880	2,785	2,858
Auditors' remuneration	2,750	2,650	2,100	2,000
Directors' emolument:				
As directors	2,000	5,000	2,000	5,000
As executives	6,533	5,863	6,533	5,863
Legal and professional fees	8,975	9,190	8,724	8,728
Loss on foreign exchange	5,002	3,296	5,002	3,296
Amortisation of leasehold land	369	308	265	265
Registration fees	-	3,624	-	-
Others	89,975	70,015	76,436	74,020
	194,840	184,499	174,380	173,398

23. SELLING AND DISTRIBUTION

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Transport	8,068	6,238	7,969	6,054
Advertising and promotion	20,196	18,636	20,138	18,587
Provision for bad debts	29,897	47,097	21,257	41,743
Provision for obsolete stocks	87	5,791	87	5,791
Other	33,766	33,083	32,415	31,841
	92,014	110,845	81,866	104,016

24. OTHER CHARGES AND EXPENSES

Service fees	55,157	51,324	55,157	51,324
Amortisation of intangible assets	6,539	6,539	-	-
	61,696	57,863	55,157	51,324

25. NET FINANCE COSTS

Bank charges	4,496	3,965	4,009	3,706
Interest on loan and overdraft	4,775	1,502	4,775	1,502
Others	6,106	3,758	6,106	3,758
	15,377	9,225	14,890	8,966

26. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging: -

Depreciation	24,855	21,830	16,911	17,213
Leasehold land amortisation	369	308	265	265
Directors emoluments:				
Fees	2,000	5,000	2,000	5,000
Executives	6,533	5,863	6,533	5,863
Auditors' remuneration	2,750	2,650	2,100	2,000
Interest payable	10,881	5,260	10,881	5,260
Exchange losses	5,002	3,296	5,002	3,296
Pension scheme contributions	3,973	3,884	3,628	3,482

And after crediting: -

Interest income	2,905	3,423	17,419	3,423
Gain on disposal of fixed assets	1,683	350	210	350

27. TAXATION

	GROUP		COMPANY	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
BALANCE SHEET				
Balance brought forward	(5,720)	(2,534)	(704)	(1,826)
Charge for the year	28,589	33,003	19,398	28,424
Previous years (over)/under provision	(132)	836	(417)	836
Payments during the year	(29,707)	(37,025)	(29,402)	(28,138)
Tax recoverable	(6,970)	(5,720)	(11,125)	(704)

27. TAXATION (Continued)

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
PROFIT AND LOSS ACCOUNT				
Current tax at 30 % on the taxable profit for the year	28,589	33,003	19,398	28,424
Previous years (over)/under provision	(132)	836	(417)	836
Deferred tax	(5,718)	2,745	(5,373)	(7,528)
	22,739	36,584	13,608	21,732
Reconciliation of taxation expense to tax based on accounting profit.				
Accounting profit before tax	73,639	95,750	59,232	88,361
Tax applicable rate of 30%	22,092	28,725	17,769	26,508
Tax effects on items not deducted for tax	4,792	11,824	697	9,462
Originating and reversing temporary differences	1,705	(7,546)	932	(7,546)
	28,589	33,003	19,398	28,424

28. EARNINGS PER SHARE

a) **Group**

Basic earnings per share of the group are calculated on the group profit attributable to the shareholders of the company of Kshs 50,900,000 (2003: 59,166,000) and on 23,727,000 ordinary shares in issue as at the close of the year, after the capitalisation of bonus shares mentioned in note 11, which took effect on 9 June 2004. The earnings per share in 2003, which was previously stated at Kshs 2.74 has been adjusted to Kshs 2.49. There were no potentially dilutive shares outstanding at 31 December 2004 or 2003. The diluted earnings per share is therefore the same as basic earnings per share.

b) **Company**

Basic earnings per share of the company are calculated on the company's profit attributable to the shareholders of the company of Kshs 45,624,000 (2003: 66,629,000) and on 23,727,000 ordinary shares in issue as at the close of the year, after the capitalisation of bonus shares mentioned in note 11, which took effect on 9th June 2004. The earnings per share in 2003, which was previously stated at Kshs 3.09 has been adjusted Kshs 2.81. There were no potentially dilutive shares outstanding at 31 December 2004 or 2003. The diluted earnings per share is therefore the same as basic earnings per share.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Bank balances and cash	26,427	22,139	12,544	19,086
Bank overdraft	(39,619)	(52,220)	(39,619)	(52,220)
	(13,192)	(30,081)	(27,075)	(33,134)

30. PRIOR YEAR ADJUSTMENT

Deferred tax liability	-	10,943	-	10,943

The adjustment in 2003 related to the reversal of excess release of deferred tax in the previous years in respect of plastic producing machinery disposed and excess release of deferred tax on leasehold land reclassified from finance lease to operating lease following clarification by the International Accounting Standard Board (IASB) on the application of the IAS 17 (leases).

31. OTHER FACILITIES GRANTED BY THE BANKERS

	GROUP		COMPANY	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Letters of credit	11,545	11,545	11,545	11,545
Guarantees given by bankers	2,340	2,340	2,340	2,340
	13,885	13,885	13,885	13,885

32. COMMITMENTS

	KShs'000	KShs'000	KShs'000	KShs'000
Capital commitments contracted for at year end	6,853	4,082	6,853	4,082
Capital commitment paid	(6,553)	(1,610)	(6,553)	(1,610)
Capital commitment not paid	300	2,472	300	2,472

The capital commitment in 2004 is in respect of factory building to be used by Unibilt 2003 Limited. The capital commitment in 2003 was in respect of a factory building extension.

33. SEGMENT INFORMATION

Business segments

The company's main business is the sale of paints, which accounts for more than 95% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosures.

34. EMPLOYEES

The average number of employees for the group during the year was 181 (2003: 187).

35. CURRENCY RISK

The group operates wholly within Kenya and its assets and liabilities are reported in the local currency. Although some of its transactions are in foreign currency, it held no significant foreign currency exposure as at 31 December 2004.

36. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

37. INCORPORATION

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

38. CURRENCY

These financial statements are presented in Kenya Shillings (KShs'000).