crown

# CROWN - BERGER KENYA LTD

Annual Report & Financial Statements 2005

# Contents

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 49th Annual General Meeting of the Company will be held at the Crown Berger Factory, Mogadishu Road, Nairobi on Monday 12 June 2006 at 3.00 p.m. 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 annual report and financial statements for the year ended 31 December 2005 together with the Directors' and Auditors' Reports thereon.

4. To declare a dividend:

   To declare a final dividend of KShs 1.00 per ordinary share for the financial year ended 31 December 2005 and to approve the closure of the Register of Members from the close of business on 13 June 2006 up to and including 14 June 2006.

5. To approve the Directors' remuneration.

6. To elect directors:

   i) Mr A Gupta 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 F G K Maina retires from office in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.

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

BY ORDER OF THE BOARD

Fiona C Fox
Secretary

3 May 2006

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, PO 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.

# Corporate Information

Year ended 31 December 2005

**PRINCIPAL PLACE OF BUSINESS**

Mogadishu Road
P.O. Box 78084
Nairobi.

**REGISTERED OFFICE**

LR No. 209/5792
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**

Fiona C. Fox
P.O. Box 41968
GPO 00100
Nairobi.

**REGISTRARS**

Chunga Associates
P.O. Box 41968
GPO 00100
Nairobi.

**AUDITORS**

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

# Chairman's Statement

For the last financial year, Crown-Berger Kenya Limited (CBKL) has reported record earnings in excess of Kshs 1.4 billion, a 17% increase in turnover. These results reflect the change in strategic focus and demonstrate the advantages of focusing our efforts on our company, our customers, and our employees. Our strong cash flows were reinvested in our businesses, used to move our Unibilt factory and also used to purchase IT software and hardware, which will further enhance our operational performance in the coming years.

Given the success of Phase I of our strategic plan, I am proud to announce that we have embarked upon Phase II of our plan, namely, regional expansion. First among the reasons for regional expansion is the growth and development opportunities in the region, and we would like to position ourselves for success in the neighbouring countries. Investment in regional growth will not only ensure long-term sustainability but also serve to mitigate against the risks inherent in recessionary or contracting markets. We have already invested in Sudan and Uganda and we are planning further investments in East Africa.

In addition, we have rationalised our product range, focusing on higher value products in order to strengthen the Crown brand. These changes have resulted in improved profitability and production efficiencies. Furthermore, we are positioning ourselves for growth in two new sectors, namely, marine paint and road paint, and we expect significant returns in both the domestic and export markets for these new product ranges.

The agreement between Imperial Chemical Industries PLC and Crown-Berger Kenya Limited expired on 31 December 2005 and we decided not to renew the agreement. Consequently, the company no longer produces the DULUX brands. This now releases us to go out and obtain the best technology wherever available and various alternative arrangements have been perused.

In furtherance of the above, the directors have resolved that the manufacturing operations of Twiga Paints Limited shall be transferred to Crown-Berger Kenya Limited during the year 2006. Consequently, no products are being manufactured by Crown-Berger Kenya Limited or Twiga Paints Limited under Imperial Chemical Industries PLC brand names. This necessitates the right-off of the unamortised goodwill through a charge in the income statement.

As we confidently move forward towards the future, we understand that we will need to address numerous challenges in our business. Among the challenges we face are rising oil and input costs resulting form the continued increases in crude oil prices; sustainable economic growth in Kenya, East Africa and Central Africa; domestic and regional socio-economic difficulties; poor investor confidence stemming from the exposure to personal and business risk and security; a reduction in growth prospects due to high interest rates; and the effects of a dilapidating infrastructure. Nonetheless, we believe in the country and its people and are steadfast in our commitments to the future of Kenya and the region, and we believe that the strides that we are making today will ensure long-term sustainability and profitability for the CBKL group.

**Mhamud Charania**
**Chairman**

**3 May 2006**

# Managing Director's Statement

As a paint manufacturing business, Crown-Berger Kenya Limited (CBKL) is subject to a variety of market factors that influence the Company's operating results. Among these factors are the rising raw material and crude oil prices that affect both the transportation and the acquisition of raw materials, and various operating costs.

Although Kenya is still burdened by numerous problems, the last financial year did see the Kenyan economy perform at what could be considered optimal levels. Whereas the Government of Kenya had forecasted a 4.3% growth for the year 2005, the Kenyan economy outperformed expectations and grew at a slightly higher rate of 5%; a feat that Kenya has not witnessed for some time. It seems that this is the beginning of a new age in Kenya as efforts by government and business have both contributed to the rebirth of the Kenyan economy, possibly signalling a new dawn for growth and prosperity in Kenya. Irrespective of the nature and the duration of this positive trend, it is believed that we should approach the future with cautious optimism, such that we are able to endure the rigours and the stresses that are normal in Kenya.

In order to address the above, the management and directors of CBKL have adopted two strategic goals. The first is operational efficiency in order to allow CBKL to effectively compete and gain advantage over our competitors. In 2005 we focussed our efforts on numerous projects to gain these efficiencies including brand rationalisation; new product development; investment in IT software and hardware that will support the management of CBKL; a renewed focus on the media and advertising and a reduction in fixed costs by moving the Unibilt factory to the CBKL plant.

The result of these efforts has been outstanding. Turnover has increased by 17% from Kshs 1.2 billion to Kshs 1.4 billion. This increase can be attributed partly to the growth of the economy, specifically in the areas of tourism, communication, construction and manufacturing; as well as the efforts made in improving customer service and the focused efforts of the sales and marketing departments.

We are embarking on major changes in Sales & Marketing. We aim to establish ourselves as a major change agent in the area. CBKL has decided to change the design of the tins and packaging to give a fresh look to attract all generations, as well as to improve our levels to international standards. In future, our aim will be to establish CBKL as the number one brand in all categories of our business from decorative, marine, auto paints to industrial paints.

Winning and retaining customers through superior quality and service is our aim and making continuous improvements is our mission to keep Crown as the number 1 brand in the region.

The management of CBKL wish to thank the shareholders, customers and staff for their confidence and support.

**Rakesh Rao**
**Managing Director**

**3 May 2006**

# Corporate Governance

**INTRODUCTION**
Crown-Berger Kenya Ltd is committed to the highest standards of governance by establishing a number of management and social responsibility principles in addition to the new standards of Corporate Governance introduced by Capital Market Authority. The Board of Directors is responsible for the long-term growth and profitability of the company.

**THE BOARD OF DIRECTORS**
The Board comprises of 9 directors, of whom 3 are executive. Mr. Rakesh Rao is the Managing Director, Mr. Patrick Mwati the Finance Director and Mr. Hussein Charania the Executive Director. The Chairman Mr. Mhamud Charania is a non-executive Director. The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues. The Board meets at least 4 times a year with additional meetings held as and when the need arises.

Whilst the day to day running of the business of the company is delegated to the Managing Director, the Board is responsible for establishing and maintaining the Company's system of internal controls so that its objectives for growth in the profitability and shareholder value are realized.

All directors receive formal information on their role, duties, responsibilities and obligations as well as Board practices and procedures on first appointment. Subsequently they are kept informed of corporate governance, changing corporate environment, business/commercial risks and other matters that are of interest in the execution of their role.

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

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

a) Audit Committee
   The audit committee chaired by a Non Executive director and with attendance by invitation of the Managing Director and other key personnel reviews the effectiveness of internal controls and discusses the audit reports.

b) Finance Committee
   This committee is also chaired by a non-executive director, meets at least 4 times in a year to receive reports from management, to review performance against targets, ensure compliance and to issue guidelines where necessary.

The Board appoints other committees as and when required.

**COMMUNICATION WITH SHAREHOLDERS**
The company is committed to ensuring that shareholders and financial market are provided with full and timely information about its performance. This is usually done through the distribution of the company's Annual Report and the release of notices in the national press of its half-yearly and annual results. In this regard, the company complies with its obligations contained in the Nairobi Stock Exchange's Listing Rules and the Capital Markets Authority Act applicable in Kenya.

**DIRECTORS' EMOLUMENTS AND LOANS**
The aggregate amount of emoluments paid to Directors for services rendered is disclosed in Note 25 to the financial statements. No arrangements exist whereby a Director could acquire Company's shares on beneficial terms.

There were no Directors loans at any time during the year.

**SOCIAL AND ENVIRONMENTAL ISSUES**
Crown-Berger Kenya Ltd is committed to the protection of the environment and in our policies a deliberate effort is made to its enhancement. To this end, we have been certified compliant with NEMA's policy for safety, health & environment regulations. The company is also fully aware of its social responsibility and regularly contributes to public improvement projects.

**LIST OF 10 LARGEST SHAREHOLDERS as at 3 May 2006**

| ACCOUNT NUMBER | NAME (S) AND ADDRESS | N0. OF SHARES | % |
|---|---|---|---|
| 0002402 | CROWN PAINTS AND BUILDING PRODUCTS LIMITED<br>P.O. BOX 78188, NAIROBI | 11,402,855 | 48.06 |
| 0003207 | BARCLAY HOLDINGS LIMITED<br>35 BARRACK ROAD<br>P.O. BOX 1777<br>BELIZE CITY, BELIZE | 3,234,000 | 13.63 |
| 0000604 | PAUL WANDERI NDUNGU<br>P.O. BOX 75528, NAIROBI | 842,761 | 3.55 |
| 0002208 | KIRTESH PREMCHAND SHAH<br>P.O. BOX 18138, NAIROBI | 450,912 | 1.90 |
| 0000590 | PRADEEP PATANI<br>P.O. BOX 48673, 00100 NAIROBI | 284,365 | 1.20 |
| 0011240 | MULCHLAND NARSHI SHAH<br>P.O. BOX 44851-00100, NAIROBI | 277,433 | 1.17 |
| 0006645 | AMIN MOHAMED PREMJI<br>P.O. BOX 42909 - 00100, NAIROBI | 262,718 | 1.11 |
| 0280780 | JOHN MURIUKI KIBUCHI<br>P.O. BOX 20105 - 00200, NAIROBI | 237,780 | 1.00 |
| 0088986 | MAHENDRA DAHYABHAI PATEL<br>P.O. BOX 178 - 00606, NAIROBI | 224,020 | 0.94 |
| 0002270 | MAHENDRA FULCHLAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI<br>P.O. BOX 90393, MOMBASA | 200,939 | 0.85 |
| Total number of shares | | 17,417,783 | 73.41 |
| AND 2328 other shareholders | | 6,309,217 | 26.59 |
| **TOTAL** | | 23,727,000 | 100.00 |

**DISTRIBUTION OF SHAREHOLDERS**

| Group | No. Of Shareholders | Shares | % Sharesholding |
|---|---|---|---|
| 0 - 1000 | 1,334 | 609,872 | 2.57 |
| 1001 - 5000 | 738 | 1,481,366 | 6.24 |
| 5,001 - 10,000 | 129 | 888,109 | 3.74 |
| 10,001 - 50,000 | 114 | 2,282,205 | 9.62 |
| 50,001 - 100,000 | 9 | 619,244 | 2.61 |
| 100,001 and over | 14 | 17,846,204 | 75.22 |
| Total: | 2,338 | 23,727,000 | 100.00 |

# Report of the Directors

For the year ended 31 December 2005

The directors submit their report and the audited financial statements for the year ended 31 December 2005, 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. However, there are plans in 2006 for the operations of Twiga Paints Limited, one of the subsidiaries, to be taken over by Crown-Berger Kenya Limited, the parent company. Consequently, Twiga Paints Limited shall become a dormant company.

2. **ROYALTY AGREEMENT WITH IMPERIAL CHEMICAL INDUSTRIES PLC**

   The royalty agreement entered into between Imperial Chemical Industries PLC and Crown-Berger Kenya Limited (the licensee) expired on 31 December 2005. The royalty agreement gave Crown-Berger Kenya Limited the right to grant sub-licenses to its subsidiary companies. This agreement was not renewed. Consequently, no products are being manufactured by Crown-Berger Kenya Limited or its subsidiaries under the brand names of Imperial Chemical Industries PLC.

3. **GROUP RESULTS**

   The results of the group for the year are set out on page 13.

4. **COMPANY RESULTS**

   The results of the company for the year are set out on page 17.

5. **DIVIDENDS**

   Subject to the approval of the shareholders, the directors recommend the payment of a dividend of Kshs 1 per share amounting to KShs 23,727,000 (2004: Nil).

6. **FINANCIAL STATEMENTS**

   At the date of this report, the directors were not aware of any circumstances, which would have rendered the values attributed to assets and liabilities in the financial statements of the group misleading.

7. **RESERVES**

   The reserves of the group and the company are set out on page 27, Note 11.

8. **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 | | |
| A.Gupta | | |
| R.K. Rao | - | (Managing Director – Appointed on 31.03.05) |

8. **DIRECTORS (Continued)**

In accordance with Article 100 of the Articles of Association Mr A Gupta and Mr F G K Maina retire by rotation and being eligible, offer themselves for re-election.

9. **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**
**Secretary**

**3 May 2006**

# Statement of Directors' Responsibilities

Year ended 31 December 2005

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.

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.

The directors have resolved that the operations of Twiga Paints Limited be transferred to Crown-Berger Kenya Limited, the parent company during the year 2006. Consequently, Twiga Paints Limited shall become a dormant company.

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

| | | |
|---|---|---|
| **Mhamud Charania** | ) | **Chairman** |
| **Patrick Mwati** | ) | **Director** |

**3 May 2006**

# Report of the Independent Auditors

**TO THE MEMBERS OF CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES**

We have audited the financial statements on pages 12 to 32 for the year ended 31 December 2005 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. The financial statements are in agreement with the books of account.

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS**

As stated on page 10, 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 give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2005 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.

Ernst & Young

Certified Public Accountants
**Nairobi**

**3 May 2006**

# Consolidated Balance Sheet

As at 31 December 2005

| | Note | 2005 KShs'000 | 2004 KShs'000 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant & equipment | 2 | 353,489 | 316,917 |
| Work in progress | 3 | 21,723 | 6,553 |
| Goodwill | 4 | - | 13,081 |
| Prepaid leases on leasehold land | 5 | 18,128 | 18,497 |
| | | 393,340 | 355,048 |
| CURRENT ASSETS | | | |
| Stocks | 7 | 536,027 | 449,702 |
| Trade and other debtors | 8 | 285,430 | 235,960 |
| Amounts due from related companies | 9(iii) | - | 26,000 |
| Tax recoverable | 26 | 21,093 | 6,970 |
| Bank balances and cash | | 22,931 | 26,427 |
| | | 865,481 | 745,059 |
| TOTAL ASSETS | | 1,258,821 | 1,100,107 |
| SHAREHOLDERS' FUNDS AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 118,635 | 118,635 |
| Reserves | 11 | 504,307 | 493,616 |
| Proposed dividends | 12 | 23,727 | - |
| | | 646,669 | 612,251 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax | 13 | 71,939 | 53,472 |
| CURRENT LIABILITIES | | | |
| Bank overdraft | 14 | 146,371 | 39,619 |
| Loan | 15 | 20,000 | 30,000 |
| Commercial paper | 16 | 142,926 | 116,352 |
| Creditors and accruals | 17 | 203,449 | 175,436 |
| Amounts due to related companies | 9(iii) | 27,467 | 72,977 |
| | | 540,213 | 434,384 |
| TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES | | 1,258,821 | 1,100,107 |

The financial statements were approved by the Board of Directors on 3 May 2006 and signed on its behalf by:

Mhamud Charania ) Chairman

Patrick Mwati ) Director

# Consolidated Income Statement

For the year ended 31 December 2005

| | Note | 2005 KShs'000 | 2004 KShs'000 |
|---|---|---|---|
| SALES | 18 | 1,442,439 | 1,225,506 |
| COST OF SALES | 19 | (999,163) | (816,917) |
| GROSS PROFIT | | 443,276 | 408,589 |
| OTHER INCOME | 20 | 33,707 | 28,977 |
| | | 476,983 | 437,566 |
| EXPENSES:- | | | |
| Administration and establishment | 21 | 198,322 | 194,840 |
| Selling and distribution | 22 | 111,469 | 92,014 |
| Other charges and expenses | 23 | 60,269 | 61,696 |
| | | 370,060 | 348,550 |
| PROFIT FROM CONTINUING OPERATING ACTIVITIES | | 106,923 | 89,016 |
| NET FINANCE COSTS | 24 | (30,655) | (15,377) |
| PROFIT FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEM & TAXATION | 25 | 76,268 | 73,639 |
| EXCEPTIONAL ITEM | 4 | (6,542) | - |
| PROFIT BEFORE TAXATION | | 69,726 | 73,639 |
| TAXATION | 26 | (35,308) | (22,739) |
| NET PROFIT FOR THE YEAR | | 34,418 | 50,900 |
| | | KShs | KShs |
| Earnings per share | 27 | 1.45 | 2.15 |
| | | KShs'000 | KShs'000 |
| Dividends: | | | |
| Proposed for the year | 12 | 23,727 | - |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

| | 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 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) |
| At 31 December 2004 | 118,635 | 80,174 | 54,252 | 359,190 | - | 612,251 |
| At 1 January 2005 | 118,635 | 80,174 | 54,252 | 359,190 | - | 612,251 |
| Transfer of excess depreciation on revaluation net of related deferred tax | - | - | (9,051) | 9,051 | - | - |
| Net profit for the year | - | - | - | 34,418 | - | 34,418 |
| Dividends | | | | | | |
| - Proposed for 2005 | - | - | - | (23,727) | 23,727 | - |
| At 31 December 2005 | 118,635 | 80,174 | 45,201 | 378,932 | 23,727 | 646,669 |

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

| | 2005 KShs'000 | 2004 KShs'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net profit before exceptional item and taxation | 76,268 | 73,639 |
| Adjustments for:- | | |
| Amortisation of ICL royalties | - | 563 |
| Depreciation | 24,180 | 24,855 |
| Leasehold land amortisation | 369 | 369 |
| Amortisation of goodwill | 6,539 | 6,539 |
| Foreign exchange (loss)/gain | (1,887) | 5,002 |
| Interest expense | 25,493 | 10,881 |
| Gain on disposal of plant & equipment | (845) | (1,683) |
| Operating profit before working capital changes | 130,117 | 120,165 |
| Trade and other debtors | (48,470) | (9,001) |
| Stocks | (86,325) | (151,867) |
| Trade creditors and accruals | 28,013 | 46,180 |
| Related companies | (20,510) | 12,518 |
| Cash flows generated from operations | 2,825 | 17,995 |
| Income taxes paid | (30,964) | (29,707) |
| Interest paid | (25,493) | (10,881) |
| Net cash flows used in operating activities | (53,632) | (22,593) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (60,752) | (21,678) |
| Work-in-progress | (15,170) | (6,553) |
| Proceeds on sale of plant and equipment | 845 | 17,210 |
| Net cash flows used in investing activities | (75,077) | (11,021) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loan proceeds | 20,000 | 30,000 |
| Borrowings on commercial paper | 26,574 | 57,860 |
| Loan paid | (30,000) | - |
| Dividends paid on ordinary shares | - | (32,355) |
| Net cash flows from financing activities | 16,574 | 55,505 |
| Net (decrease)/increase in cash and cash equivalents | (112,135) | 21,891 |
| Cash and cash equivalents at the beginning of the year | (13,192) | (30,081) |
| Effect of exchange rate changes | 1,887 | (5,002) |
| Cash and cash equivalents at the end of the year (Note 28) | (123,440) | (13,192) |

# Company Balance Sheet

As at 31 December 2005

| | Note | 2005 KShs'000 | 2004 KShs'000 |
|---|---|---|---|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Property, plant & equipment | 2 | 270,456 | 228,354 |
| Work in progress | 3 | 21,723 | 6,553 |
| Prepaid leases on leasehold land | 5 | 10,879 | 11,144 |
| Investment in subsidiary companies | 6 | 92,378 | 92,378 |
| | | 395,436 | 338,429 |
| CURRENT ASSETS | | | |
| Stocks | 7 | 430,513 | 383,437 |
| Debtors and prepayments | 8 | 206,109 | 182,710 |
| Amounts due from related companies | 9(iii) | 179,100 | 192,262 |
| Tax recoverable | 26 | 22,011 | 11,125 |
| Bank balances and cash | | 19,626 | 12,544 |
| | | 857,359 | 782,078 |
| TOTAL ASSETS | | 1,252,795 | 1,120,507 |
| SHAREHOLDERS' FUNDS AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 118,635 | 118,635 |
| Reserves | 11 | 467,846 | 472,971 |
| Proposed dividends | 12 | 23,727 | - |
| | | 610,208 | 591,606 |
| NON CURRENT LIABILITIES | | | |
| Deferred tax | 13 | 57,108 | 43,723 |
| CURRENT LIABILITIES | | | |
| Bank overdraft | 14 | 144,862 | 39,619 |
| Loan | 15 | 20,000 | 30,000 |
| Commercial paper | 16 | 142,926 | 116,352 |
| Creditors and accruals | 17 | 181,428 | 171,688 |
| Amounts due to related companies | 9(iii) | 96,263 | 127,519 |
| | | 585,479 | 485,178 |
| TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES | | 1,252,795 | 1,120,507 |

The financial statements were approved by the Board of Directors on 3 May 2006 and signed on its behalf by: -

Mhamud Charania ) Chairman

Patrick Mwati ) Director

# Company Income Statement

For the year ended 31 December 2005

| | Note | 2005 KShs'000 | 2004 KShs'000 |
|---|---|---|---|
| SALES | 18 | 1,244,739 | 1,069,174 |
| COST OF SALES | 19 | (889,354) | (721,091) |
| GROSS PROFIT | | 355,385 | 348,083 |
| OTHER INCOME | 20 | 46,100 | 37,442 |
| | | 401,485 | 385,525 |
| EXPENSES: - | | | |
| Administration and establishment | 21 | 175,975 | 174,380 |
| Selling and distribution | 22 | 105,336 | 81,866 |
| Other charges and expenses | 23 | 53,730 | 55,157 |
| | | 335,041 | 311,403 |
| PROFIT FROM CONTINUING OPERATING ACTIVITIES | | 66,444 | 74,122 |
| Net finance costs | 24 | (29,729) | (14,890) |
| PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION | 25 | 36,715 | 59,232 |
| TAXATION | 26 | (18,113) | (13,608) |
| NET PROFIT FOR THE YEAR | | 18,602 | 45,624 |
| | | KShs | KShs |
| Earnings per share | 27 | 0.78 | 1.92 |
| Dividends: | | KShs'000 | KShs'000 |
| Proposed for the year | 12 | 23,727 | - |

# Company Statement of Changes in Equity

For the year ended 31 December 2005

| | 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 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) |
| At 31 December 2004 | 118,635 | 80,174 | 94,628 | 298,169 | - | 591,606 |
| At 1 January 2005 | 118,635 | 80,174 | 94,628 | 298,169 | - | 591,606 |
| Transfer of excess depreciation on revaluation net of related deferred tax | - | - | (9,051) | 9,051 | - | - |
| Net profit for the year | - | - | - | 18,602 | - | 18,602 |
| Dividends | | | | | | |
| - Proposed for 2005 | - | - | - | (23,727) | 23,727 | - |
| At 31 December 2005 | 118,635 | 80,174 | 85,577 | 302,095 | 23,727 | 610,208 |

## 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 | $12\frac{1}{2}$% |
| 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, and 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. 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.

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

**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 income statement.

**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 income statement 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.

**k) Employees entitlements**

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 remaining 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.

p) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

q) Impairment of 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 recognized in the income statement.

## 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 2005 | 196,297 | 216,157 | 44,485 | 58,819 | 515,758 |
| Additions | - | 7,425 | 14,102 | 39,225 | 60,752 |
| Disposals | - | - | (7,452) | - | (7,452) |
| At 31 December 2005 | 196,297 | 223,582 | 51,135 | 98,044 | 569,058 |
| Comprising: | | | | | |
| Valuation 1996 | 102,963 | 19,879 | - | - | 122,842 |
| Cost | 93,334 | 203,703 | 51,135 | 98,044 | 446,217 |
| | 196,297 | 223,582 | 51,135 | 98,044 | 569,059 |
| Depreciation | | | | | |
| At 1 January 2005 | 27,723 | 84,771 | 34,011 | 52,336 | 198,841 |
| Charge for the year | 3,860 | 13,483 | 3,324 | 3,513 | 24,180 |
| Eliminated on disposals | - | - | (7,452) | - | (7,452) |
| At 31 December 2005 | 31,583 | 98,254 | 29,883 | 55,849 | 215,569 |
| Net Book Value | | | | | |
| At 31 December 2005 | 164,714 | 125,328 | 21,252 | 42,195 | 353,489 |
| At 31 December 2004 | 168,574 | 131,386 | 10,474 | 6,483 | 316,917 |

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 122,743,589 (2004: KShs 103,950,298) 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 17,694,565 (2004: KShs 16,585,686).

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 2005 | 158,797 | 148,619 | 39,344 | 52,612 | 399,372 |
| Additions | | 7,111 | 14,102 | 39,124 | 60,337 |
| Disposals | - | - | (7,166) | - | (7,166) |
| At 31 December 2005 | 158,797 | 155,730 | 46,280 | 91,736 | 452,543 |
| Comprising: | | | | | |
| Valuation 1996 | 102,963 | 8,283 | - | - | 111,246 |
| Cost | 55,834 | 147,447 | 46,280 | 91,736 | 341,297 |
| | 158,797 | 155,730 | 46,280 | 91,736 | 452,543 |
| Depreciation | | | | | |
| At 1 January 2005 | 25,066 | 67,897 | 31,324 | 46,731 | 171,018 |
| Charge for the year | 3,111 | 9,075 | 2,640 | 3,409 | 18,235 |
| Eliminated on disposals | - | - | (7,166) | - | (7,166) |
| At 31 December 2005 | 28,177 | 76,972 | 26,798 | 50,140 | 182,087 |
| Net Book Value | | | | | |
| At 31 December 2005 | 130,620 | 78,758 | 19,482 | 41,596 | 270,456 |
| At 31 December 2004 | 133,731 | 80,722 | 8,020 | 5,881 | 228,354 |

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 103,080,699 (2004: KShs 96,759,108) 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 15,266,258 (2004: KShs 15,652,067). 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 was: -

| | | |
|---|---|---|
| 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 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Cost | | | | |
| At 1 January | 6,553 | 1,610 | 6,553 | 1,610 |
| Additions | 15,170 | 6,553 | 15,170 | 6,553 |
| Transfer to assets | - | (1,610) | - | (1,610) |
| At 31 December | 21,723 | 6,553 | 21,723 | 6,553 |

This relates to factory buildings to be used by Unibilt 2003 Limited.

## 4. GOODWILL ON CONSOLIDATION

| | GROUP | |
|---|---|---|
| | 2005 | 2004 |
| | KShs'000 | KShs'000 |
| Cost | | |
| At 1 January and December | 65,390 | 65,390 |
| Amortisation | | |
| At 1 January | 52,309 | 45,770 |
| Charge for the year | 6,539 | 6,539 |
| Exceptional item (Write off on derecognition) | 6,542 | - |
| At 31 December | 65,390 | 52,309 |
| NET BOOK VALUE | - | 13,081 |

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.

The directors have resolved that the manufacturing operations of Twiga Paints Limited shall be transferred to Crown-Berger Kenya Limited during the year 2006. In addition, the royalty agreement between Crown-Berger Kenya Limited and Imperial Chemical Industries PLC, which expired on 31 December 2005, was not renewed. The royalty agreement gave Crown-Berger Kenya Limited (the parent company) the right to grant sub-licenses to its subsidiaries. Consequently, no products are being manufactured by Crown-Berger Kenya Limited or Twiga Paints Limited under the brand names of Imperial Chemical Industries PLC. Accordingly, the unamortised goodwill has been charged to the income statement as an exceptional item.

## 5. PREPAID LEASES ON LEASEHOLD LAND

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Cost | | | | |
| At 1 January and December | 20,500 | 20,500 | 13,000 | 13,000 |
| Additions | - | - | - | - |
| | 20,500 | 20,500 | 13,000 | 13,000 |
| Amortisation | | | | |
| At 1 January | 2,003 | 1,634 | 1,856 | 1,591 |
| Charge for the year | 369 | 369 | 265 | 265 |
| At 31 December | 2,372 | 2,003 | 2,121 | 1,856 |
| NET BOOK VALUE | 18,128 | 18,497 | 10,879 | 11,144 |

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

i) Mogadishu Road factory - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2005 is 41 years.

ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2005 is 41 years.

iii) Unibilt 2003 Limited factory - amortised over the lease period of 72 years. The un-expired lease period as at 31 December 2005 is 69 years.

## 6. INVESTMENT IN SUBSIDIARIES

| Details of investment | Country of incorporation | Activity | Percentage of equity interest | COMPANY 2005 KShs'000 | COMPANY 2004 KShs'000 |
|---|---|---|---|---|---|
| Twiga Paints Limited (1,375,000 ordinary shares of KShs 20 each) | Kenya | Selling of auto paints & 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. STOCKS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Finished goods | 164,331 | 139,816 | 130,406 | 117,042 |
| Raw materials | 364,544 | 307,159 | 300,107 | 266,395 |
| Spare parts | 890 | 2,415 | - | - |
| Others | 6,262 | 312 | - | - |
| | 536,027 | 449,702 | 430,513 | 383,437 |

## 8. DEBTORS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Trade debtors | 271,242 | 217,321 | 192,342 | 174,154 |
| Other debtors | 12,722 | 11,964 | 12,517 | 7,224 |
| Prepayments | 1,466 | 6,675 | 1,250 | 1,332 |
| | 285,430 | 235,960 | 206,109 | 182,710 |

## 9. RELATED PARTY TRANSACTIONS

The company is controlled by Crown Paints & 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.

The following transactions were carried out with related parties:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| (i) Services rendered | | | | |
| Crown Paints & Building Products Limited (Management services - Note 23) | 52,730 | 55,157 | 52,730 | 55,157 |
| (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 through common control.

**9. RELATED PARTY TRANSACTIONS (Continued)**

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | 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 | - | - | 179,100 | 166,262 |
| | - | 26,000 | 179,100 | 192,262 |
| Payables to related parties: | | | | |
| Crown Paints & Building Products Limited | 27,467 | 72,977 | 27,227 | 72,977 |
| Twiga Paints Limited | - | - | 69,036 | 54,542 |
| | 27,467 | 72,977 | 96,263 | 127,519 |

**10. SHARE CAPITAL**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Authorised:<br>25,000,000 ordinary shares<br>of KShs.5 each | 125,000 | 125,000 | 125,000 | 125,000 |
| Issued and fully paid:<br>23,727,000 (2004: 23,727,000)<br>ordinary shares of KShs.5 each | 118,635 | 118,635 | 118,635 | 118,635 |

**11. RESERVES**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Share premium | 80,174 | 80,174 | 80,174 | 80,174 |
| Revaluation reserve | 45,201 | 54,252 | 85,577 | 94,628 |
| Retained profit | 378,932 | 359,190 | 302,095 | 298,169 |
| | 504,307 | 493,616 | 467,846 | 472,971 |

**12. PROPOSED DIVIDENDS**

| | | | | |
|---|---|---|---|---|
| Final | 23,727 | - | 23,727 | - |
| | KShs | KShs | KShs | KShs |
| Dividend per ordinary share | 1.00 | - | 1.00 | - |

Dividend per share is calculated on dividends of KShs 23,727,000 (2004: Nil) and on the number of shares in issue at the respective balance sheet date. Payment of the dividends is subject to withholding tax at the rate of 5% for residents and 10% for non residents.

**13. DEFERRED TAX**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| The provision for deferred tax comprises: | | | | |
| Accelerated tax on depreciation | 54,710 | 49,814 | 31,420 | 25,384 |
| Tax losses | (8,459) | (14,681) | - | - |
| Other timing differences | 25,688 | 18,339 | 25,688 | 18,339 |
| | 71,939 | 53,472 | 57,108 | 43,723 |

**14. BANK OVERDRAFT**

The bank overdraft is secured by debenture of KShs. 525 million over the assets of the group supported by supplementary charge over LR 209/5792 and LR 209/4275

The weighted average interest rate on the overdraft at year-end was 16.5% (2004: 14.5%).

**15. LOAN**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | 20,000 | 30,000 | 20,000 | 30,000 |

The loan is secured by debenture of KShs. 525 million over the assets of the group supported by supplementary charge over LR 209/5792 and LR 209/4275

The weighted average interest rate on the loan at year-end was 8.75% (2004: 10%).

**16. COMMERCIAL PAPER**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | 142,926 | 116,352 | 142,926 | 116,352 |

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

**17. CREDITORS AND ACCRUALS**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | | | | |
| Trade creditors | 185,693 | 149,748 | 167,624 | 149,348 |
| Other creditors | 11,847 | 9,567 | 8,951 | 6,938 |
| Accruals and deferred income | 5,909 | 16,121 | 4,853 | 15,402 |
| | 203,449 | 175,436 | 181,428 | 171,688 |

**18. SALES**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Decorative paints | 1,060,685 | 1,030,498 | 1,026,557 | 991,410 |
| Industrial paints | 102,439 | 26,525 | 89,453 | 4,069 |
| V.R. range | 138,570 | 152,420 | 51,944 | 73,695 |
| Tins | 59,376 | 8,685 | - | - |
| Others | 81,369 | 7,378 | 76,785 | - |
| | 1,442,439 | 1,225,506 | 1,244,739 | 1,069,174 |

**19. COST OF SALES**

| | | | | |
|---|---|---|---|---|
| Raw materials | 856,223 | 715,179 | 775,449 | 652,001 |
| Salaries and wages | 44,067 | 39,031 | 31,204 | 31,650 |
| Depreciation of plant and machinery | 20,360 | 21,385 | 15,099 | 14,126 |
| Machinery repairs and maintenance | 8,705 | 6,966 | 8,643 | 6,378 |
| Fuel, water and electricity | 43,966 | 12,214 | 36,260 | 10,997 |
| Royalty | 17,238 | - | 17,238 | - |
| Others | 8,604 | 22,142 | 5,461 | 5,939 |
| | 999,163 | 816,917 | 889,354 | 721,091 |

**20. OTHER INCOME**

| | | | | |
|---|---|---|---|---|
| Gain on disposal of plant & equipment | 845 | 1,683 | 845 | 210 |
| Interest Income | 978 | 2,905 | 16,853 | 17,419 |
| Miscellaneous income | 8,351 | 1,690 | 8,321 | 1,369 |
| Bad debts recovered | 23,533 | 22,699 | 20,081 | 18,444 |
| | 33,707 | 28,977 | 46,100 | 37,442 |

**21. ADMINISTRATION AND ESTABLISHMENT EXPENSES**

| | | | | |
|---|---|---|---|---|
| Staff costs | 90,246 | 75,766 | 83,005 | 70,535 |
| Depreciation | 3,820 | 3,470 | 3,136 | 2,785 |
| Auditors' remuneration | 2,750 | 2,750 | 2,100 | 2,100 |
| Directors' emoluments: | | | | |
| As directors | - | 2,000 | - | 2,000 |
| As executives | 8,443 | 6,533 | 8,443 | 6,533 |
| Legal and professional fees | 13,780 | 8,975 | 12,624 | 8,724 |
| (Gain)/loss on foreign exchange | (1,887) | 5,002 | (2,509) | 5,002 |
| Amortisation of leasehold land | 369 | 369 | 265 | 265 |
| Others | 80,801 | 89,975 | 68,911 | 76,436 |
| | 198,322 | 194,840 | 175,975 | 174,380 |

**22. SELLING AND DISTRIBUTION**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Transport | 12,677 | 8,068 | 12,334 | 7,969 |
| Advertising and promotion | 30,836 | 20,196 | 30,419 | 20,138 |
| Provision for bad debts | 18,776 | 29,897 | 15,069 | 21,257 |
| Provision for obsolete stocks | 199 | 87 | 199 | 87 |
| Others | 48,981 | 33,766 | 47,315 | 32,415 |
| | 111,469 | 92,014 | 105,336 | 81,866 |

**23. OTHER CHARGES AND EXPENSES**

| | | | | |
|---|---|---|---|---|
| Service fees | 53,730 | 55,157 | 53,730 | 55,157 |
| Amortisation of intangible assets | 6,539 | 6,539 | - | - |
| | 60,269 | 61,696 | 53,730 | 55,157 |

**24. NET FINANCE COSTS**

| | | | | |
|---|---|---|---|---|
| Bank charges | 5,162 | 4,496 | 4,367 | 4,009 |
| Interest on loan and overdraft | 6,286 | 4,775 | 6,286 | 4,775 |
| Others | 19,207 | 6,106 | 19,076 | 6,106 |
| | 30,655 | 15,377 | 29,729 | 14,890 |

**25. PROFIT BEFORE TAXATION**

The profit before taxation is stated after charging: -

| | | | | |
|---|---|---|---|---|
| Depreciation | 24,180 | 24,855 | 18,235 | 16,911 |
| Leasehold land amortisation | 369 | 369 | 265 | 265 |
| Directors emoluments: | | | | |
| Fees | - | 2,000 | - | 2,000 |
| Executives | 8,443 | 6,533 | 8,443 | 6,533 |
| Auditors' remuneration | 2,750 | 2,750 | 2,100 | 2,100 |
| Interest payable | 25,493 | 10,881 | 25,362 | 10,881 |
| Exchange losses | - | 5,002 | - | 5,002 |
| Pension scheme contributions | 2,224 | 3,973 | 2,224 | 3,628 |

And after crediting: -

| | | | | |
|---|---|---|---|---|
| Interest income | 978 | 2,905 | 16,853 | 17,419 |
| Exchange gain | 1,887 | - | 2,509 | - |
| Gain on disposal of fixed assets | 845 | 1,683 | 845 | 210 |

## 26. TAXATION

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| BALANCE SHEET | | | | |
| Balance brought forward | (6,970) | (5,720) | (11,125) | (704) |
| Charge for the year | 15,564 | 28,589 | 4,728 | 19,398 |
| Previous years (over)/ under provision | 1,277 | (132) | - | (417) |
| Payments during the year | (30,964) | (29,707) | (15,614) | (29,402) |
| Tax recoverable | (21,093) | (6,970) | (22,011) | (11,125) |
| PROFIT AND LOSS ACCOUNT | | | | |
| Current tax at 30% on the taxable profit for the year | 15,564 | 28,589 | 4,728 | 19,398 |
| Previous years (over)/under provision | 1,277 | (132) | - | (417) |
| Deferred tax | 18,467 | (5,718) | 13,385 | (5,373) |
| | 35,308 | 22,739 | 18,113 | 13,608 |
| Reconciliation of taxation expense to tax based on accounting profit. | | | | |
| Accounting profit before tax | 76,268 | 73,639 | 36,715 | 59,232 |
| Tax applicable rate of 30% | 22,880 | 22,092 | 11,014 | 17,769 |
| Tax effects on items not deducted for tax | (332) | 4,792 | (2,537) | 697 |
| Originating and reversing temporary differences | (6,984) | 1,705 | (3,749) | 932 |
| | 15,564 | 28,589 | 4,728 | 19,398 |

## 27. EARNINGS PER SHARE

a) Basic earnings per share is calculated on the profit after tax and on the average number of ordinary shares in issue during the year.

b) Diluted earnings per share is calculated on the profit after tax and on the average number of ordinary and bonus shares in issue.

c) The basic and diluted earnings per share are the same.

## 28. CASH AND CASH EQUIVALENTS

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

| | GROUP | |
|---|---|---|
| | 2005 | 2004 |
| | KShs'000 | KShs'000 |
| Bank balances and cash | 22,931 | 26,427 |
| Bank overdraft | (146,371) | (39,619) |
| | (123,440) | (13,192) |

**29. OTHER FACILITIES GRANTED BY THE BANKERS**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Letters of credit | 34,797 | 11,545 | 34,797 | 11,545 |
| Guarantees given by bankers | 2,945 | 2,340 | 2,945 | 2,340 |
| | 37,742 | 13,885 | 37,742 | 13,885 |

**30. COMMITMENTS**

| | | | | |
|---|---|---|---|---|
| Capital commitments contracted for at year end | 36,097 | 6,853 | 36,097 | 6,853 |
| Capital commitment paid | (8,057) | (6,553) | (8,057) | (6,553) |
| Capital commitment not paid | 28,040 | 300 | 28,040 | 300 |

The capital commitment in 2005 is in respect of acquisition and implementation of a new accounting software and related hardware infrastructure. The capital commitment in 2004 was in respect of factory building to be used by Unibilt 2003 Limited.

**31. SEGMENT INFORMATION**

The group 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.

**32. ROYALTY AGREEMENT WITH IMPERIAL CHEMICAL INDUSTRIES (UK) LTD**

The royalty agreement between the parent company and Imperial Chemical Industries (UK) Ltd expired on 31 December 2005. The parent company has opted not to renew the agreement. Consequently, the company no longer produces the DULUX brands.

**33. POST BALANCE SHEET EVENTS**

The directors have resolved that the operations of Twiga Paints Limited shall be transferred to Crown-Berger Kenya Limited during the year 2006.

**34. EMPLOYEES**

The average number of employees for the group during the year was 202 (2004: 181).

**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 2005.

**36. INCORPORATION**

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

**37. CURRENCY**

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