# CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

31 DECEMBER 2006

ERNST & YOUNG

2007/1326

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2006

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1. [illegible] [illegible] limited -- Periodicals
2. [illegible] [illegible] and trade -- [illegible] -- Periodicals

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006

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

Kairu Mbuthia & Partners Advocates
Old Mutual Building
Kimathi Street,
P.O. Box 6574
00100 Nairobi.

SECRETARY

Fiona 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.

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006

The directors submit their report and the audited financial statements for the year ended 31 December 2006, 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.

The operations of Twiga Paints Limited, one of the subsidiaries, were from 1st July 2006 taken over by Crown-Berger Kenya Limited, the parent company. Consequently, Twiga Paints Limited became a dormant company. Unibilt 2003 Limited, a subsidiary of Crown-Berger Kenya Limited, leased its operations with effect from 1st May 2007 to Metal Cans and Closures Limited.

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 were manufactured by Crown-Berger Kenya Limited or its subsidiaries under the brand names of Imperial Chemical Industries PLC after 31 March 2006 when the right to sale products in stock at 31 December 2005 expired.

3. GROUP RESULTS

The results for the year are set out on page 7.

4. COMPANY RESULTS

The results for the year are set out on page 11.

5. DIVIDENDS

Subject to approval by shareholders, the directors recommend the payment of a dividend of KShs 1.50 (2005: KShs 1.00) per share amounting to KShs 35,590,500 (2005: 23,727,000).

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 25, Note 11.

8. DIRECTORS

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

| | | |
|---|---|---|
| M. Charania | - | Chairman |
| R.K. Rao | - | Managing Director |
| F.G.K. Maina | | |
| M. Bhatt | | |
| P.M. Mwati | - | (Alternate to M. Bhatt) |
| H.H.R.J Charania | | |
| A. Gupta | - | Resigned on 23.11.2006 |
| F. O. Ogutu | - | Appointed on 23.11.2006 |

9. AUDITORS

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

By Order of the Board

Fiona Fox
Secretary

8th May 2007

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE GROUP'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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 in the manner required by 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 control.

The directors have resolved that the operations of Unibuilt 2003 Limited be leased out with effect from 1st May 2007.

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.

..............................
Director

..............................
Director

8th May 2007
Date

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

31 DECEMBER 2006

ERNST & YOUNG

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2006

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AUDITORS

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Kenya-Re Towers, Upperhill
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00100 Nairobi GPO.

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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 25, Note 11.

8. DIRECTORS

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

| | | |
|---|---|---|
| M. Charania | - | Chairman |
| R.K. Rao | - | Managing Director |
| F.G.K. Maina | | |
| M. Bhatt | | |
| P.M. Mwati | - | (Alternate to M. Bhatt) |
| H.H.R.J Charania | | |
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9. AUDITORS

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

By Order of the Board

Fiona Fox
Secretary

8th May 2007

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE GROUP'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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 in the manner required by 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 control.

The directors have resolved that the operations of Unibuilt 2003 Limited be leased out with effect from 1st May 2007.

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.

..............................
Director

..............................
Director

8th May 2007
Date

ERNST & YOUNG

Certified Public Accountants
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286
00100 Nairobi GPO
Kenya

Phone: + 254 20 2715300
Fax: + 254 20 2716271
E-mail: info@ey.co.ke
Website: www.ey.com/easternafrica

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF
CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Crown-Berger Kenya limited (the company) and its subsidiaries (together, the group), as set out on pages 6 to 35 which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company as at 31 December 2006, the income statement and statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the group and of the company as at 31 December 2006 and of the profit and cash flows of the group and company for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Ernst & Young

Certified Public Accountants
Nairobi

8 May, 2007.

Other Offices: NAKURU, MOMBASA, ELDORET.

C.A. Otolo, J.K. Geita, P.M. Kamau, G.G. Karuu, J.K.C. Cheboror, A.S. Gilani, P.N. Anchinga, C.O. Atinda, H.C. Wasike, G.S. Santokh, G. Gitahi.

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

| | Note | 2006 KShs'000 | 2005 KShs'000 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant & equipment | 2 | 458,824 | 353,489 |
| Work-in-progress | 3 | 15,305 | 21,723 |
| Prepaid leases on leasehold land | 5 | 10,614 | 18,128 |
| Inter company loans | 9(ii) | 15,833 | - |
| | | 500,576 | 393,340 |
| CURRENT ASSETS | | | |
| Stocks | 7 | 571,818 | 536,027 |
| Trade and other debtors | 8 | 409,954 | 285,430 |
| Amounts due from related parties | 9(iii) | 29,513 | - |
| Tax recoverable | 26 | - | 21,093 |
| Bank balances and cash | | 22,880 | 22,931 |
| | | 1,034,165 | 865,481 |
| TOTAL ASSETS | | 1,534,741 | 1,258,821 |
| SHAREHOLDERS' FUNDS AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 118,635 | 118,635 |
| Reserves | 11 | 616,727 | 504,307 |
| Proposed dividends | 12 | 35,591 | 23,727 |
| | | 770,953 | 646,669 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax | 13 | 78,978 | 71,939 |
| Loan | 15 | 37,500 | - |
| | | 116,478 | 71,939 |
| CURRENT LIABILITIES | | | |
| Bank overdraft | 14 | 7,104 | 146,371 |
| Loan | 15 | 69,132 | 20,000 |
| Commercial paper | 16 | 172,932 | 142,926 |
| Tax payable | 26 | 9,873 | - |
| Trade creditors and accruals | 17 | 388,269 | 203,449 |
| Amounts due to related parties | 9(iii) | - | 27,467 |
| | | 647,310 | 540,213 |
| TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES | | 1,534,741 | 1,258,821 |

The financial statements were approved by the Board of Directors on ......8th......May........ 2007
and signed on its behalf by:

...................................... )
)
) Directors
)
...................................... )

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

| CONTINUING OPERATIONS | Note | 2006 KShs'000 | 2005 KShs'000 |
|---|---|---|---|
| SALES | 18 | 1,689,630 | 1,442,439 |
| COST OF SALES | 19 | (1,084,372) | (999,163) |
| GROSS PROFIT | | 605,258 | 443,276 |
| OTHER INCOME | 20 | 24,052 | 33,707 |
| | | 629,310 | 476,983 |
| EXPENSES:- | | | |
| Administration and establishment | 21 | 263,845 | 198,322 |
| Selling and distribution | 22 | 163,792 | 111,469 |
| Other expenses | 23 | 58,843 | 60,269 |
| | | 486,480 | 370,060 |
| PROFIT FROM CONTINUING OPERATIONS | | 142,830 | 106,923 |
| NET FINANCE COSTS | 24 | (40,109) | (30,655) |
| PROFIT FROM CONTINUING OPERATIONS BEFORE SHARE OF ASSOCIATE LOSS, EXCEPTIONAL ITEM AND TAXATION | 25 | 102,721 | 76,268 |
| SHARE OF ASSOCIATE LOSS | | (1,000) | - |
| PROFIT FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEM AND TAXATION | | 101,721 | 76,268 |
| EXCEPTIONAL ITEM | 4 | (21,371) | (6,542) |
| PROFIT BEFORE TAXATION | | 80,350 | 69,726 |
| TAXATION | 26 | (16,578) | (35,308) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | 63,772 | 34,418 |
| DISCONTINUED OPERATION PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION | 27 | 8,160 | - |
| PROFIT FOR THE YEAR | | 71,932 | 34,418 |
| Earnings per share | | KShs | KShs |
| Attributable to continuing operations | 28 | 2.69 | 1.45 |
| Attributable to discontinued operation | 28 | 0.34 | - |
| | | 3.03 | 1.45 |
| | | KShs'000 | KShs'000 |
| Dividends proposed for the year | 12 | 35,591 | 23,727 |

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

| | 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 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 | - | - |
| 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 |
| At 1 January 2006 | 118,635 | 80,174 | 45,201 | 378,932 | 23,727 | 646,669 |
| Revaluation surplus | - | - | 103,021 | - | - | 103,021 |
| Transfer of excess depreciation on revaluation net of related deferred tax | - | - | (13,215) | 13,215 | - | - |
| Deferred tax | | | (26,942) | | | (26,942) |
| Profit for the year | - | - | - | 71,932 | - | 71,932 |
| Dividends | | | | | | |
| - Paid for 2005 | - | - | - | - | (23,727) | (23,727) |
| - Proposed for 2006 | - | - | - | (35,591) | 35,591 | - |
| At 31 December 2006 | 118,635 | 80,174 | 108,065 | 428,488 | 35,591 | 770,953 |

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

| | 2006 | 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | KShs'000 | KShs'000 |
| Profit before share of loss of associated company, exceptional item and taxation | | |
| Attributable to continuing operations | 102,721 | 76,268 |
| Attributable to discontinued operation (Note 27) | 12,618 | - |
| | 115,339 | 76,268 |
| Adjustments for:- | | |
| Depreciation | 40,017 | 24,180 |
| Leasehold land amortisation | 265 | 369 |
| Amortisation of goodwill | - | 6,539 |
| Foreign exchange loss | (929) | (1,887) |
| Interest expense | 32,299 | 25,493 |
| Gain on disposal of plant & equipment | (17,308) | (845) |
| Operating profit before working capital changes | 169,683 | 130,117 |
| Trade and other debtors | (124,524) | (48,470) |
| Stocks | (35,791) | (86,325) |
| Trade creditors and accruals | 184,820 | 28,013 |
| Related parties | (17,879) | (20,510) |
| Cash flows generated from operations | 176,309 | 2,825 |
| Income taxes paid | (9,974) | (30,964) |
| Interest paid | (32,299) | (25,493) |
| Net cash flows from/( used by) operating activities | 134,036 | (53,632) |
| CASH FLOWS TO INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (80,228) | (60,752) |
| Work-in-progress | (15,305) | (15,170) |
| Proceeds on sale of plant and equipment | 7,031 | 845 |
| Investment in subsidiary | (1,000) | - |
| Net cash flows to investing activities | (89,502) | (75,077) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loan proceeds | 107,476 | 20,000 |
| Borrowings on commercial paper | 30,006 | 26,574 |
| Loan paid | (20,000) | (30,000) |
| Dividends paid on ordinary shares | (23,727) | - |
| Net cash flows from financing activities | 93,755 | 16,574 |
| Net increase/(decrease) in cash and cash equivalents | 138,287 | (112,135) |
| Cash and cash equivalents at the beginning of the year | (123,440) | (13,192) |
| Effect of exchange rate changes | 929 | 1,887 |
| Cash and cash equivalents at the end of the year (Note 29) | 15,776 | (123,440) |

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2006

| | Note | 2006 KShs'000 | 2005 KShs'000 |
|---|---|---|---|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Property, plant & equipment | 2 | 426,340 | 270,456 |
| Work-in-progress | 3 | 15,305 | 21,723 |
| Prepaid leases on leasehold land | 5 | 10,614 | 10,879 |
| Investment in subsidiary companies | 6 | 93,378 | 92,378 |
| Inter company loans | 9(ii) | 15,833 | - |
| | | 561,470 | 395,436 |
| CURRENT ASSETS | | | |
| Stocks | 7 | 508,509 | 430,513 |
| Trade and other debtors | 8 | 289,029 | 206,109 |
| Amounts due from related parties | 9(iii) | 187,298 | 179,100 |
| Tax recoverable | | - | 22,011 |
| Bank balances and cash | | 22,271 | 19,626 |
| | | 1,007,107 | 857,359 |
| TOTAL ASSETS | | 1,568,577 | 1,252,795 |
| SHAREHOLDERS' FUNDS AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 118,635 | 118,635 |
| Reserves | 11 | 577,938 | 467,846 |
| Proposed dividends | 12 | 35,591 | 23,727 |
| | | 732,164 | 610,208 |
| NON CURRENT LIABILITES | | | |
| Deferred tax | 13 | 87,765 | 57,108 |
| CURRENT LIABILITIES | | | |
| Bank overdraft | 14 | 6,505 | 144,862 |
| Loan | 15 | 56,632 | 20,000 |
| Commercial paper | 16 | 172,932 | 142,926 |
| Trade creditors and accruals | 17 | 367,410 | 181,428 |
| Amounts due to related parties | 9(iii) | 136,777 | 96,263 |
| Tax payable | 26 | 8,392 | - |
| | | 748,648 | 585,479 |
| TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES | | 1,568,577 | 1,252,795 |

The financial statements were approved by the Board of Directors on ........8th May...... 2007
and signed on its behalf by: -

.................................... )
)
) Directors
)
.................................... )

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
COMPANY INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

| | Note | 2006 KShs'000 | 2005 KShs'000 |
|---|---|---|---|
| SALES | 18 | 1,630,086 | 1,244,739 |
| COST OF SALES | 19 | (1,051,445) | (889,354) |
| GROSS PROFIT | | 578,641 | 355,385 |
| OTHER INCOME | 20 | 30,423 | 46,100 |
| | | 609,064 | 401,485 |
| EXPENSES: - | | | |
| Administration and establishment | 21 | 236,346 | 175,975 |
| Selling and distribution | 22 | 163,792 | 105,336 |
| Other expenses | 23 | 58,843 | 53,730 |
| | | 459,481 | 335,041 |
| PROFIT FROM CONTINUING OPERATING OPERATIONS | | 149,583 | 66,444 |
| NET FINANCE COSTS | 24 | (39,783) | (29,729) |
| PROFIT FROM CONTINUING OPERATIONS BEFORE SHARE OF ASSOCIATE LOSS AND TAXATION | 25 | 109,800 | 36,715 |
| SHARE OF ASSOCIATE LOSS | | (1,000) | - |
| PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION | | 108,800 | 36,715 |
| TAXATION | 26 | (40,196) | (18,113) |
| PROFIT FOR THE YEAR | | 68,604 | 18,602 |
| | | KShs | KShs |
| Earnings per share | 28 | 2.93 | 0.78 |
| Dividends: | | KShs'000 | KShs'000 |
| Proposed for the year | 12 | 35,591 | 23,727 |

CROWN-BERGER KENYA LIMITED AND SUBSIDIARIES
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

| | 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 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 | - | - |
| 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 |
| At 1 January 2006 | 118,635 | 80,174 | 85,577 | 302,095 | 23,727 | 610,208 |
| Revaluation surplus | - | - | 103,021 | - | - | 103,021 |
| Transfer of excess depreciation on revaluation net of related deferred tax | - | - | (13,215) | 13,215 | - | - |
| Deferred tax | - | - | (26,942) | - | - | (26,942) |
| Profit for the year | - | - | - | 69,604 | - | 69,604 |
| Dividends | | | | | | |
| - Paid for 2005 | | | | | (23,727) | (23,727) |
| - Proposed for 2006 | - | - | - | (35,591) | 35,591 | - |
| At 31 December 2006 | 118,635 | 80,174 | 148,441 | 349,323 | 35,591 | 732,164 |

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year except as stated in paragraph (a) below:

a) Adoption of new and revised International Financial Reporting Standards (IFRS)

In 2006 new and revised standards and interpretations became effective for the first time and have been adopted by the group where relevant to its operations. This only resulted in changes in presentation and disclosures as follows:

- IAS 1 requires management judgement and key sources of estimation and uncertainty at balance sheet date to be disclosed in the financial statements
- IAS 16 has required the disclosure of comparative figures for the movements in property, plant and equipment
- IAS 24 has required the disclosures of the compensation of key management
- IFRS 5 has required the disclosure of segment results

b) Basis of preparation.

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings rounded to the nearest thousand (KShs' 000).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgment in the process of applying the group's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates. Accounting policies '1d' and '1e' below on 'critical accounting estimates and assumptions' and 'critical accounting judgements' highlight the areas that involve a higher level of judgement, or where the estimates or assumptions used are significant to the financial statements.

c) 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 50% investment in Crown Paints & Building Products, Uganda where the parent company has no significant influence has been accounted on equity basis. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

d) Critical accounting estimates and assumptions

In the process of applying the group's accounting policies, directors make certain estimates and assumptions about future events. In practice, the estimated and assumed results would differ form the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Critical accounting estimates and assumptions (continued)

*Property and equipment*
Directors make estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy for property and equipment

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances

e) Critical accounting judgements

In the process of applying the group's accounting policies, directors make certain judgements, that are continuously assessed based on prior experience and other determinants, including expectations of future events that, under the circumstances are deemed to be reasonable as described below:

*Provisions for obsolete stocks*
Directors review the stocks on an annual basis to assess the likelihood of obsolescence. In determining whether a stock item is obsolete, directors make judgement as to whether the stock item can be used as an input in production or is in saleable condition.

*Provisions for doubtful debts*
The group reviews its debtors' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

f) Revenue recognition.

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

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

All other income earned by the group is recognized as it accrues.

g) Taxation

Income tax expense represents the sum of current tax payable and deferred 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)

h) Taxation

Income tax expense represents the sum of current tax payable and deferred 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.

i) Property, plant, equipment and depreciation.

Property, plant and equipment are stated at cost or at professionally revalued amounts less accumulated depreciation and any accumulated impairment.

Property plant and equipment are revalued at periodic intervals, usually after every ten years.

Increases in the carrying amount arising on revaluations are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the income statement.

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 | 12½% |
| Motor vehicles | 20% and 25% |
| Computers | 20% |

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

j) Intangible assets

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) 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.

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) 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.

n) Employees benefits

*Defined benefit pension scheme*
The group operates a defined benefits post-employment pension scheme for eligible non-unionasable employees. The scheme is funded by contributions from the employees and the company. The assets of the scheme are held and administered independently of the group's assets. The group's contribution to the scheme is charged to the income statement so as to spread the cost over the service lives of employees. The defined benefit obligation is calculated every three years by independent actuaries using the projected credit unit method. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognized immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortized on a straight line basis over the vesting period.

*Defined contribution provident fund*
The group 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 group's contributions to the above schemes are charged to the income statement in the year to which they relate.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial instruments

Financial assets and liabilities are recognized in the group's balance sheet when the group becomes a party to contractual provisions of the instrument.

*Trade receivables*
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate is made of doubtful receivables based on review of all outstanding amounts at year end. Bad debts are written off after all efforts of recovery have been exhausted.

*Trade payables*
Trade payables are stated at their nominal value.

*Borrowings*
Interest bearing loans, overdrafts and commercial papers are recorded at the proceeds received, net of direct costs. Finance charges, including premium payable on settlement or redemption, are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

p) 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.

q) 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.

r) Related parties

In the normal course of business, the group has entered into transactions with related parties. The related party transactions are at commercial terms.

s) Provisions

Provisions are recognized when the group has a present legal or constructive obligation as a result of past events and it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

t) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) 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.

v) Cash and cash equivalent

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition net of outstanding bank overdrafts.

w) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other segments.

## 2 PROPERTY, PLANT AND EQUIPMENT

(i-a) GROUP – Year ended 31 December 2006

| | 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 2006 | 196,297 | 223,582 | 51,135 | 98,044 | 569,058 |
| Revaluation surplus | 59,382 | 22,267 | - | - | 81,649 |
| Additions | 7,194 | 28,215 | 8,533 | 36,286 | 80,228 |
| Reclassifications | 21,723 | - | - | - | 21,723 |
| Disposals | (37,500) | - | (4,466) | (12) | (41,978) |
| At 31 December 2006 | 247,096 | 274,064 | 55,202 | 134,318 | 710,680 |
| Comprising: | | | | | |
| Valuation 2006 | 124,845 | 42,146 | - | - | 166,991 |
| Cost | 122,251 | 231,918 | 55,202 | 134,318 | 543,689 |
| | 247,096 | 274,064 | 55,202 | 134,318 | 710,680 |
| Depreciation | | | | | |
| At 1 January 2006 | 31,583 | 98,254 | 29,883 | 55,849 | 215,569 |
| Charge for the year | 4,745 | 16,503 | 7,153 | 11,880 | 40,281 |
| Eliminated on disposals | (1,813) | - | (2,169) | (12) | (3,994) |
| At 31 December 2006 | 34,515 | 114,757 | 34,867 | 67,717 | 251,856 |
| Net Book Value | | | | | |
| At 31 December 2006 | 212,581 | 159,307 | 20,335 | 66,601 | 458,824 |

(i-b) GROUP – Year ended 31 December 2005

| | 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 | 446,216 |
| | 196,297 | 223,582 | 51,135 | 98,044 | 569,058 |
| 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 |

## 2 PROPERTY, PLANT AND EQUIPMENT (Continued)

(i-a) GROUP

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 127,793,038 (2005: KShs 122,743,589) 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 16,506,242 (2005: KShs 17,694,565).

(ii-a) COMPANY – Year ended 31 December 2006

| | 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 2006 | 158,796 | 155,729 | 46,280 | 91,736 | 452,541 |
| Revaluation surplus | 59,382 | 43,639 | | | 103,021 |
| Additions | 7,193 | 18,541 | 7,762 | 36,172 | 69,668 |
| Reclassifications | 21,723 | | | | 21,723 |
| Disposals | - | - | (4,465) | (12) | (4,477) |
| At 31 December 2006 | 247,094 | 217,909 | 49,577 | 127,896 | 642,476 |
| Comprising: | | | | | |
| Valuation 2006 | 162,344 | 51,921 | - | - | 214,265 |
| Cost | 84,750 | 165,988 | 49,577 | 127,896 | 428,211 |
| | 247,094 | 217,909 | 49,577 | 127,896 | 642,476 |
| Depreciation | | | | | |
| At 1 January 2006 | 28,178 | 76,972 | 26,798 | 50,139 | 182,087 |
| Charge for the year | 4,745 | 13,349 | 6,367 | 11,769 | 36,230 |
| Eliminated on disposals | - | - | (2,169) | (12) | (2,181) |
| At 31 December 2006 | 32,923 | 90,321 | 30,996 | 61,896 | 216,136 |
| Net Book Value | | | | | |
| At 31 December 2006 | 214,171 | 127,588 | 18,581 | 66,000 | 426,340 |

## 2 PROPERTY, PLANT AND EQUIPMENT (Continued)

(ii-b) COMPANY – Year ended 31 December 2005

| | 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 | | 9,075 | 2,640 | 3,409 | 18,235 |
| | 3,111 | | | | |
| 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 |

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 108,130,148 (2005: KShs 103,080,699) 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 15,089,867 (2005: KShs 15,266,258).

The assets other than fixtures, fittings and equipment and motor vehicles were revalued on 31 March 2006. 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, Kiragu & Mwangi Limited. The revaluation surplus was credited to capital reserves while the revaluation deficit has been charged to the income statement as an exceptional item.

The fixtures, fittings and equipment and motor vehicles are stated at cost.

3. WORK-IN-PROGRESS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Cost | | | | |
| At 1 January | 21,723 | 6,553 | 21,723 | 6,553 |
| Additions | 15,305 | 15,170 | 15,305 | 15,170 |
| Transfer to assets | (21,723) | - | (21,723) | - |
| At 31 December | 15,305 | 21,723 | 15,305 | 21,723 |

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

4. EXCEPTIONAL ITEM

| (i) GOODWILL ON CONSOLIDATION | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| | KShs'000 | KShs'000 |
| Cost | | |
| At 1 January and December | 65,390 | 65,390 |
| Amortisation | | |
| At 1 January | 65,390 | 52,309 |
| Charge for the year | - | 6,539 |
| Exceptional item (Write off on de-recognition) | - | 6,542 |
| At 31 December | 65,390 | 65,390 |
| NET BOOK VALUE | - | - |

The goodwill was recognised on acquisition of Twiga Paints Limited in 1995. The Board of Directors decided to amortised 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.

| (ii) DEFICIT ON REVALUATION | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| | KShs'000 | KShs'000 |
| Deficit on revaluation | 21,371 | - |

The deficit arose from the revaluation of plant and machinery in Unibilt 2003 limited, a wholly owned subsidiary.

5. PREPAID LEASES ON LEASEHOLD LAND

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Cost | | | | |
| At 1 January and December | 20,500 | 20,500 | 13,000 | 13,000 |
| Disposal | (7,500) | - | - | - |
| | 13,000 | 20,500 | 13,000 | 13,000 |
| Amortisation | | | | |
| At 1 January | 2,372 | 2,003 | 2,121 | 1,856 |
| Charge for the year | 265 | 369 | 265 | 265 |
| Release on disposal | (251) | - | - | - |
| At 31 December | 2,386 | 2,372 | 2,386 | 2,121 |
| NET BOOK VALUE | 10,614 | 18,128 | 10,614 | 10,879 |

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 2006 is 40 years.

ii) Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2006 is 40 years.

iii) Unibilt 2003 Limited factory – amortised over the lease period of 72 years. The un-expired lease period as at 31 December 2006 is 68 years.

6. INVESTMENT IN SUBSIDIARIES

| | | | | COMPANY | |
|---|---|---|---|---|---|
| Details of investment | Country of incorporation | Activity | Percentage of equity interest | 2006 KShs'000 | 2005 KShs'000 |
| Twiga Paints Limited (1,375,000 ordinary shares of KShs 20 each) | Kenya | Selling of auto 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 |
| Crown Buildings and Products limited (Uganda) | Uganda | Selling of auto paints and decorative products | 50% | 1,000 | - |
| | | | | 93,378 | 92,378 |

| 7. STOCKS | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Finished goods | 225,042 | 164,331 | 221,969 | 130,406 |
| Raw materials | 342,719 | 364,544 | 286,540 | 300,107 |
| Spare parts | - | 890 | - | - |
| Others | 4,057 | 6,262 | - | - |
| | 571,818 | 536,027 | 508,509 | 430,513 |

| 8. TRADE AND OTHER DEBTORS | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Trade debtors | 310,599 | 271,242 | 260,264 | 192,342 |
| Other debtors | 82,774 | 12,722 | 12,184 | 12,517 |
| Prepayments | 16,581 | 1,466 | 16,581 | 1,250 |
| | 409,954 | 285,430 | 289,029 | 206,109 |

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 Barclay Holding Limited incorporated in Belize Off-Shore Centre.

The following transactions were carried out with related parties:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| (i) Services rendered | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Crown Paints & Building Products Limited (Management services- Note 23) | 58,843 | 53,730 | 58,843 | 53,730 |
| (ii) Loan to related company | | | | |
| Crown Buildings and Products limited (Uganda) | 15,833 | - | 15,833 | - |

Crown Buildings and Products limited (Uganda) is a related company through common control.

9. RELATED PARTY TRANSACTIONS (Continued)

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Receivable from related parties: | | | | |
| Crown Paints & Building Products Limited | 5,075 | - | 5,075 | - |
| Crown Paints & Building Products Limited (Uganda) | 24,438 | - | 24,438 | - |
| Unibilt 2003 Limited | - | - | 157,785 | 179,100 |
| | 29,513 | - | 187,298 | 179,100 |
| Payables to related parties: | | | | |
| Crown Paints & Building Products Limited | - | 27,467 | - | 27,227 |
| Twiga Paints Limited | - | - | 136,777 | 69,036 |
| | - | 27,467 | 136,777 | 96,263 |

(iv) Key management personnel compensation

| | GROUP 2006 KShs'000 | GROUP 2005 KShs'000 | COMPANY 2006 KShs'000 | COMPANY 2005 KShs'000 |
|---|---|---|---|---|
| Remuneration | 22,884 | 17,336 | 17,708 | 14,737 |
| Retirement benefits | 2,324 | 2,854 | 2,179 | 1,210 |
| | 25,208 | 20,190 | 19,887 | 15,947 |

10. SHARE CAPITAL

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | 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 (2005: 23,727,000) ordinary shares of KShs.5 each | 118,635 | 118,635 | 118,635 | 118,635 |

11. RESERVES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Share premium | 80,174 | 80,174 | 80,174 | 80,174 |
| Revaluation reserve | 108,065 | 45,201 | 148,441 | 85,577 |
| Retained profit | 428,488 | 378,932 | 349,323 | 302,095 |
| | 616,727 | 504,307 | 577,938 | 467,846 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| 12. PROPOSED DIVIDENDS | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Final | 35,591 | 23,727 | 35,591 | 23,727 |
| | KShs | KShs | KShs | KShs |
| Dividend per ordinary share | 1.50 | 1.00 | 1.50 | 1.00 |

Dividend per share is calculated on dividends of KShs 35,590,500 (2005: 23,727,000) 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.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| 13. DEFERRED TAX | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| The provision for deferred tax comprises: | | | | |
| Accelerated tax on depreciation | 49,058 | 54,710 | 43,388 | 31,420 |
| Tax losses | (14,457) | (8,459) | - | - |
| Other timing differences | 52,296 | 25,688 | 52,296 | 25,688 |
| General provision | (7,919) | - | (7,919) | - |
| | 78,978 | 71,939 | 87,765 | 57,108 |

14. BANK OVERDRAFT

The bank overdraft facility from Barclays Bank Kenya Limited is to the extent of KShs. 100 million and 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% (2005: 16.5%).

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| 15. LOAN | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | 69,132 | 20,000 | 56,632 | 20,000 |
| Amounts falling due after one year | 37,500 | - | - | - |
| | 106,632 | 20,000 | 56,632 | 20,000 |

The loan facility from Barclays Bank Kenya Limited 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 9.93% (2005:8.75%)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| 16. COMMERCIAL PAPER | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | 172,932 | 142,926 | 172,932 | 142,926 |

The interest rate on the commercial paper is at treasury bills interest rate plus 1.5%.

| | Group 2006 | Group 2005 | Company 2006 | Company 2005 |
|---|---|---|---|---|
| **17. TRADE CREDITORS AND ACCRUALS** | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Amounts falling due within one year | | | | |
| Trade creditors | 357,940 | 185,693 | 341,555 | 167,624 |
| Other creditors | 13,080 | 11,847 | 9,722 | 8,951 |
| Accruals | 17,249 | 5,909 | 16,133 | 4,853 |
| | 388,269 | 203,449 | 367,410 | 181,428 |
| **18. SALES** | | | | |
| Decorative paints | 1,468,538 | 1,060,685 | 1,494,817 | 1,026,557 |
| Industrial paints | 117,442 | 102,439 | 117,442 | 89,453 |
| V.R. range | 17,827 | 138,570 | 17,827 | 51,944 |
| Tins | 76,303 | 59,376 | - | - |
| Others | 9,520 | 81,369 | - | 76,785 |
| | 1,689,630 | 1,442,439 | 1,630,086 | 1,244,739 |
| **19. COST OF SALES** | | | | |
| Raw materials | 943,027 | 856,223 | 947,114 | 775,449 |
| Salaries and wages | 58,982 | 44,067 | 39,101 | 31,204 |
| Depreciation of plant and machinery | 27,825 | 20,360 | 24,560 | 15,099 |
| Machinery repairs and maintenance | 13,409 | 8,705 | 7,061 | 8,643 |
| Fuel, water and electricity | 34,897 | 43,966 | 27,443 | 36,260 |
| Royalties | - | 17,238 | - | 17,238 |
| Others | 6,232 | 8,604 | 6,166 | 5,461 |
| | 1,084,372 | 999,163 | 1,051,445 | 889,354 |
| **20. OTHER INCOME** | | | | |
| Gain on disposal of plant & equipment | 14,205 | 845 | 641 | 845 |
| Interest income | - | 978 | 20,097 | 16,853 |
| Miscellaneous income | 1,394 | 8,351 | 1,232 | 8,321 |
| Bad debts recovered | 8,453 | 23,533 | 8,453 | 20,081 |
| | 24,052 | 33,707 | 30,423 | 46,100 |

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| 21. | ADMINISTRATION AND ESTABLISHMENT EXPENSES | 2006 | 2005 | 2006 | 2005 |
| | | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| | Staff costs | 118,650 | 90,246 | 115,896 | 83,005 |
| | Depreciation | 12,194 | 3,820 | 11,405 | 3,136 |
| | Auditors' remuneration | 3,500 | 2,750 | 2,600 | 2,100 |
| | Directors' emoluments: | | | | |
| | As directors | 5,500 | - | 5,500 | - |
| | As executives | 13,353 | 8,443 | 13,353 | 8,443 |
| | Legal and professional fees | 19,911 | 13,780 | 11,164 | 12,624 |
| | Loss on foreign exchange | (929) | (1,887) | - | (2,509) |
| | Amortisation of leasehold land | 265 | 369 | 265 | 265 |
| | Insurance | 19,117 | 17,495 | 16,355 | 15,133 |
| | Office expenses | 22,857 | 18,427 | 22,287 | 17,927 |
| | Others | 49,427 | 44,879 | 38,021 | 35,851 |
| | | 263,845 | 198,322 | 236,846 | 175,975 |
| 22. | SELLING AND DISTRIBUTION | | | | |
| | Transport | 14,911 | 12,677 | 14,911 | 12,334 |
| | Advertising and promotion | 54,152 | 30,836 | 54,152 | 30,419 |
| | Provision for bad debts | 40,139 | 18,776 | 40,139 | 15,069 |
| | Provision for obsolete stocks | 13,236 | 199 | 13,236 | 199 |
| | Depots expenses | 25,360 | 27,890 | 25,360 | 27,890 |
| | Others | 15,994 | 21,091 | 15,994 | 19,425 |
| | | 163,792 | 111,469 | 163,792 | 105,336 |
| 23. | OTHER CHARGES AND EXPENSES | | | | |
| | Service fees | 58,843 | 53,730 | 58,843 | 53,730 |
| | Amortisation of intangible assets | - | 6,539 | - | - |
| | | 58,843 | 60,269 | 58,843 | 53,730 |
| 24. | NET FINANCE COSTS | | | | |
| | Bank charges | 7,810 | 5,162 | 7,508 | 4,367 |
| | Interest on loan and overdraft | 15,534 | 6,286 | 15,534 | 6,286 |
| | Others | 16,765 | 19,207 | 16,741 | 19,076 |
| | | 40,109 | 30,655 | 39,783 | 29,729 |

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| 25. | PROFIT BEFORE TAXATION | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| | The profit before taxation is stated after charging: - | | | | |
| | Depreciation | 12,194 | 24,180 | 11,405 | 18,235 |
| | Leasehold land amortisation | 265 | 369 | 265 | 265 |
| | Directors emoluments: | | | | |
| | As directors | 5,500 | - | 5,500 | - |
| | As Executives | 13,353 | 8,443 | 13,353 | 8,443 |
| | Auditors' remuneration | 3,500 | 2,750 | 2,600 | 2,100 |
| | Interest payable | 32,299 | 25,493 | 32,276 | 25,362 |
| | Exchange losses | - | - | 2,610 | - |
| | Pension scheme contributions | 2,970 | 2,224 | 2,706 | 2,224 |
| | And after crediting: - | | | | |
| | Interest income | - | 978 | 20,097 | 16,853 |
| | Exchange gain | 929 | 1,887 | - | 2,509 |
| | Gain on disposal of property, plant and equipment | 17,308 | 845 | 641 | 845 |
| 26. | TAXATION | | | | |
| | BALANCE SHEET | | | | |
| | Balance brought forward | (21,093) | (6,970) | (22,011) | (11,125) |
| | Charge for the year | 40,940 | 15,564 | 36,482 | 4,728 |
| | Previous years under provision | - | 1,277 | - | - |
| | Payments during the year | (9,974) | (30,964) | (6,079) | (15,614) |
| | Tax payable/(recoverable) | 9,873 | (21,093) | 8,392 | (22,011) |
| | INCOME STATEMENT | | | | |
| | Current tax at 30 % on the taxable profit for the year | 36,481 | 15,564 | 36,481 | 4,728 |
| | Previous years under provision | - | 1,277 | - | - |
| | Deferred tax | (19,903) | 18,467 | 3,715 | 13,385 |
| | | 16,578 | 35,308 | 40,196 | 18,113 |
| | Reconciliation of taxation expense to tax based on accounting profit. | | | | |
| | Accounting profit before tax | 81,350 | 76,268 | 109,800 | 36,715 |
| | Tax at applicable rate of 30% | 24,404 | 22,880 | 32,939 | 11,014 |
| | Tax effects on items not deducted for tax | 2,458 | (332) | 2,458 | (2,537) |
| | Originating and reversing temporary differences | 9,619 | (6,984) | 1,084 | (3,749) |
| | | 36,481 | 15,564 | 36,481 | 4,728 |

27. DISCONTINUED OPERATIONS

On 1st July 2006, operations of Twiga Paints Limited, a wholly owned subsidiary were transferred to Crown-Berger Kenya Limited, the parent company. Consequently, the subsidiary became a dormant company. The company was manufacturing and selling paints and ancillary products for decorative, vehicle refinish and industrial market. The paints were manufactured under license from ICI PLC UK until 31st December, 2005.

a) The results of Twiga Paints Limited for the year are presented below:

| | 2006<br>KShs'000 |
|---|---|
| TURNOVER | 68,796 |
| COST OF SALES | (48,576) |
| Gross profit | 20,220 |
| OTHER INCOME | 5,152 |
| Total income | 25,372 |
| EXPENSES | |
| Administrative & establishment | 7,142 |
| Selling & distribution | 4,901 |
| Finance costs | 711 |
| | 12,754 |
| Profit from discontinuing operations before taxation | 12,618 |
| Taxation | (4,458) |
| Profit from discontinuing operations after taxation | 8,160 |

b) The major un-disposed classes of assets and liabilities of Twiga Paints Limited as at 31 December 2006 are as follows:

| | 2006 |
|---|---|
| ASSETS | KShs'000 |
| CURRENT ASSETS | |
| Debtors & prepayments | 5,464 |
| Due from related company | 136,777 |
| Cash & bank balances | 17 |
| | 142,258 |
| CURRENT LIABILITIES | |
| Tax payable | (1,481) |
| Creditors | (1,665) |
| | (3,146) |
| Net assets directly associated with discontinued operation | 139,112 |

27. DISCONTINUED OPERATIONS (Continued)

c) Net cash flows from Twiga Paints Limited are as follows:

| | 2006<br>KShs'000 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net profit before taxation | 12,618 |
| Adjustments for: - | |
| Gain on disposal of fixed assets | (3,103) |
| Operating profit before working capital changes | 9,515 |
| Increase/(decrease) in amounts due from parent company | (67,741) |
| Decrease/(increase) in trade and other debtors | 29,440 |
| Decrease/(Increase) in stocks | 28,358 |
| (Decrease)/increase in trade creditors and accruals | (1,898) |
| Cash flows (used in )/generated from operations | (2,326) |
| Income taxes paid | (3,896) |
| Net cash flows used in operating activities | (6,222) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sale of fixed assets | 3,103 |
| Net cash flows from investing activities | 3,103 |
| Net (decrease)/increase in cash and cash equivalents | (3,119) |
| Cash and cash equivalents at the beginning of the year | 3,136 |
| Cash and cash equivalents at the end of the year | 17 |
| d) Earnings per share | |
| Basic and diluted, from discontinued operation | 6 |

28. 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.

## 29. CASH AND CASH EQUIVALENTS

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

| | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| | KShs'000 | KShs'000 |
| Bank balances and cash | 22,880 | 22,931 |
| Bank overdraft | (7,104) | (146,371) |
| | 15,776 | (123,440) |

## 30. OTHER FACILITIES GRANTED BY THE BANKERS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Letters of credit | 44,317 | 34,797 | 44,317 | 34,797 |
| Guarantees given by bankers | 2,871 | 2,945 | 2,871 | 2,945 |
| | 47,188 | 37,742 | 47,188 | 37,742 |

## 31. COMMITMENTS

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

The capital commitment in 2005 was in respect of acquisition and implementation of a new accounting software and related hardware infrastructure.

## 32. SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments as the group's risks and rates of returns are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

The tins segment manufactures and sells metal and plastic items. The segment supplies tins (packaging materials) to the paints segment. Its sales to the paints segment comprise 55% of its turnover and 11% of the group's turnover.

The discontinued operation, Twiga Paints Limited, prior to its discontinuance, manufactured and sold paints and ancillary products for decorative, vehicle refinish and industrial market.

Transfer prices between the business segments are set on commercial terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

a) Business Segments

The Group is currently organised in two divisions, paint and tins. These divisions are the basis on which the Group reports its primary segment information.

Segment information is as presented below.

| 31 December 2006 | Continuing operations Paints | Tins | Elimination | Consolidated | Discontinued operation Paints | Total operations |
|---|---|---|---|---|---|---|
| | KShs '000 | KShs '000 | | KShs '000 | KShs '000 | KShs '000 |
| Revenue | | | | | | |
| Sales to external customers | 1,630,086 | 59,544 | | 1,689,630 | 68,796 | 1,758,426 |
| Inter segment sales | | 131,175 | (131,175) | - | | - |
| Other income / (costs) | 30,423 | (6,371) | - | 24,052 | 5,152 | 29,204 |
| Inter segment other income | 20,097 | - | (20,097) | - | - | - |
| | 1,680,606 | 183,348 | (151,272) | 1,713,682 | 73,948 | 1,787,630 |
| Results | | | | | | |
| Operating results | 109,800 | (7,079) | - | 102,721 | 12,618 | 115,339 |
| Share of associate loss | (1,000) | - | - | (1,000) | | (1,000) |
| Exceptional item | - | (21,371) | | (21,371) | - | (21,371) |
| Profit /(loss) before taxation | 108,800 | (28,450) | - | 80,350 | 12,618 | 92,968 |
| Income tax (expense) / credit | (40,196) | 23,618 | - | (16,578) | (4,458) | (21,036) |
| Profit / (loss) after tax | 68,604 | (4,832) | - | 63,772 | 8,160 | 71,932 |

a) Business Segments (Continued)

| 31 December 2006 | Continuing operations Paints | Tins | Elimination | Consolidated | Discontinued operation Paints | Total operations |
|---|---|---|---|---|---|---|
| | KShs '000 | KShs '000 | | KShs '000 | KShs '000 | KShs '000 |
| Assets and Liabilities | | | | | | |
| Segment assets | 1,475,199 | 220,633 | (162,091) | 1,533,741 | 142,259 | 1,676,000 |
| Investment in associate | 93,378 | - | (92,378) | 1,000 | - | 1,000 |
| Total assets | 1,568,577 | 220,633 | (254,469) | 1,534,741 | 142,259 | 1,677,000 |
| Segment liabilities | 836,413 | 227,578 | (300,203) | 763,788 | 3,146 | 766,934 |
| Other segment information | | | | | | |
| Capital expenditure - tangible fixed assets | 69,668 | 10,560 | - | 80,228 | - | 80,228 |
| Capital expenditure - work-in-progress | 15,305 | - | - | 15,305 | - | 15,305 |
| Depreciation and amortisation of leasehold land | 36,230 | 4,051 | | 40,281 | - | 40,281 |
| Exceptional item - Revaluation deficit | - | 21,371 | - | 21,371 | - | 21,371 |
| Service fees | 58,843 | - | - | 58,843 | - | 58,843 |
| Average number of employees | 185 | 41 | | 226 | 7 | 233 |

b) Geographical Segments

The major part of the group's business is all within Kenya

## 33. 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 opted not to renew the agreement. Consequently, the company no longer produces the DULUX brands.

34. STAFF RETIREMENT DEFINED BENEFIT SCHEME

Contributions to the company staff retirement benefit scheme are determined by the rules of the scheme and totaled KShs 2,964,668 (2005 – KShs 2,470,617) in the year.

An actuarial valuation was last carried out as at 31 December 2004 by Aon Consulting and Actuarial Services. The valuation revealed a surplus of KShs 10,535,000, representing a funding level of 137.7%. This is above the 80% minimum funding level allowed by the Retirement Benefit Authority.

Valuation assumptions:

| | |
|---|---|
| - Valuation interest rate | 10% p.a. |
| - Salary escalation rate | 8% p.a. |
| - Pension increase rate | 3% p.a. |
| - Proportion of investment return credited to members' balances | 70% |

The next actuarial valuation is scheduled for 31 December 2007.

35. POST BALANCE SHEET EVENT

Unibuilt 2003 Limited, a wholly owned subsidiary which manufactures metal and plastic items. The company from 1st May 2007 has leased the manufacturing facilities to Metal Cans and Closures Kenya Limited and will be receiving monthly lease rentals.

36. EMPLOYEES

The average number of employees for the group during the year was 233 (2005: 202).

37. COMPARATIVES

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

38. 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 2006.

39. INCORPORATION

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