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NOTICE OF THE ANNUAL GENERAL MEETING

CROWN BERGER KENYA LIMITED

NOTICE IS HEREBY GIVEN that the 55th Annual General Meeting of the Company will be held at the Panafric Hotel, Kenyatta Avenue, Nairobi on Thursday 21st June 2012 at 11.00 am. to conduct the following business:

- 1 To read the notice convening the meeting.
- 2 To table the proxies and confirm the presence of a quorum.
- 3 To consider and, if approved, adopt the audited financial statements for the year ended 31 December 2011 together with the Directors' and Auditors' Reports thereon.
- 4 To declare a final dividend of KShs 1.25/= per ordinary share for the financial year ended 31 December 2011, and approve the closure of the Register of Members on 23rd June 2012 for one day only.
- 5 To approve the Directors' remuneration for 2011.
- 6 To elect Directors:
- i) Mr H.H.R.J. Charania retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible, offers himself for re-election.
- 7 To note that Ernst & Young continue in office as Auditors in accordance with Section 159 (2) of the Companies Act and to authorise the Directors to fix their remuneration.
- 8 To consider and, if approved, pass the following Special Resolution;

"That the name of the Company be changed from Crown Berger Kenya Limited to Crown Paints Limited"

BY ORDER OF THE BOARD

Conrad Nyukuri

Company Secretary

Date: 24 April 2012

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 Registrar, Custody & Registrar Services Limited, PO Box 8484, 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.

Chairman's Statement

It is my pleasure to present the Group's Annual Report and Financial Statements for the year ended 31st December 2011. For the Crown Brand and the Group it's been a progressive year.

Just when growth had become a fashion, 2011 provided a sting in the tail!

The Kenyan shilling which had become a beacon of stability ran into unexpected stormy seas. The best laid financial plans were put in jeopardy as rates of up to Ksh107 to the dollar were reached. At these rates rapid price escalation occurred, with the impossible task of re-cooping the increases from the market, without turning the taps off immediately.

The price escalation shattered margins and only those companies which had previously garnered their reserves had room for manoeuvre. Fortunately Crown Berger was one such company; the previous prudent approach enabled it to sustain its competitive quality stance to an extent that despite the devaluation shock wave it produced a profit achievement higher than was considered possible.

The exchange rate turmoil also had other factors which contributed uneasy market balances as interest rates leapt from then reactive comfort zone of 14% up to 25%. This had and was to have a profound effect on all investment plans, current and future. It led to curtailment of investment plans, some developers got instant cold feet, and others put the future on hold. Yet Crown sold more volume than at any point in its history.

The opening of 2012 provided good news, Kenya has oil?! Are we future members of OPEC? Will we have a

Petro- Economy? Stranger events have happened, so we plan accordingly.

The avowed intent for Lamu to become our second window to the world, gives us a feel good factor that Kenya can truly emerge as the business hub for East and Central Africa.

The Kenyan shilling has now stabilised, and inflation appears to be trending downwards. If the banks can show enterprise rather than conservatism the bank rate could be trimmed up to 4% by July-August which will send strong signals for private sector to hit the ON switches.

Work is still required on the Kenyan infrastructure, whereas some major trunk road improvements are evident, the traffic chaos and state of the secondary routes needs rapid action.

Part of the Crown Berger Vision is to improve and update the technology standards. This will uplift quality parameters and provide benefits to users, owners and ultimately the economy. Partnerships with world brand leaders is the chosen route, so in the bank we now have Crown-UK, Flowcrete, Plascon, Du-Pont. As 2012 progresses these brand and companies will be the significant forces in their respective markets.

Teflon® surface protector-Which is a brand of Du-Pont, is now the buzz word in the paint market. An additive which

transforms product performance from average to a new level of exceptional. Protected by a world patent, it is the sole right of production and as a product additive belonging to Crown Berger.

I would like to thank our many joint venture partners our collaborators, our dealers, our consumers and of course the public for making Crown Berger where it is today, and who have assisted in adding value to Crown Berger during 2011.

I also wish to thank the Board of Directors for their continued reliable support and dedication, the management and staff for their hard work and performance, the continuous efforts of all members of the Crown Family that helps to grow and sustain the company.

Finally on behalf of the Board of Directors, the Management and staff, we thank you our shareholders for your loyal support of Crown Berger.

Mhamud Charania

24th April, 2012

Highlights

Teflon®
surface protector

- New Product introduced by Crown Berger in 2012
- Product approach enabled Crown Berger to sustain its competitive quality stance to an extent that despite the devaluation shockwave the company produced profit
- Part of CBKL vision is to improve and update the technology standard, this will uplift quality parameters and provide benefit to users, owners and ultimately the economy.



Managing Director's Statement

The year 2011, was marked by achievements and surprises in equal measure. These factors were interwoven with economic woes, ranging from drought, sharp rise in food and fuel prices. Moreover, the weakening of the Kenya Shilling which resulted in high interest rates, undoubtedly the bane of any business.

The effects of these local factors were further worsened by the world chemical raw material prices which rose by an average of 40% during the same period.

As a board, we took all necessary steps to curtail these effects on our business. Indeed, Crown Berger's 2011 sales volumes rose by 21% compared to 2010, a concrete proof that the actions and measures taken by the board had borne fruit.

Our growth in terms of value was at 25% when compared to 2010. This is after the company achieved a net turnover of Ksh. 3.85 billion, compared Ksh. 3.06 billion realised in 2010. Since our gross margin was under pressure, we managed to leverage it by lowering our expenses, particularly our selling and distribution expenses in terms of percentage of net sales. Despite launching many new products in the market during the year, we also managed to keep our administrative and establishment expenses lower compared to previous financial year.

The company's pre-tax profits saw an improvement from Ksh. 169 Million, in 2010 to Ksh. 200 Million in 2011. As a result of the company shifting focus to the enhancement of the shareholder's investment and better utilization of its resources, its earning per share value jumped to Ksh. 5.44 up from Ksh. 3.85 in 2010.

Our return on investment after tax for 2011 was 11.49%. This indeed is a reasonable return, considering the tumultuous Kenyan paint market business as well as the aggressive competition strategies.

Prudent financial planning helped us to lower our costs despite higher working capital requirements as well as the high interest rates during the year. Operating cash generation before working capital, improved to Ksh. 342 Million from Ksh. 304 Million the previous year. Despite the higher inventory retained

during the year as a matter of strategic decision, the company managed to generate cash from operation to the tune of Ksh 296 Million. The company utilized part of the cash generated from operation on capital expenditure. This saved on finance costs and averted additional finance for capital expenditure.

During the year under review, the company did not take any long term loan to finance its fixed assets. We instead, used the surplus funds generated from operation.

The company's liquidity was at a comfortable level. The cash flow remained positive at Ksh. 113 Million at the end of the year as opposed to Ksh. 87 Million the previous year and current ratios retained to 1.46 times.

The company managed its assets very well and made a turnover 6.16 times of fixed assets which reflect optimum utilization of its resources.

Sales and Marketing

There was a significant growth across all sectors. New products contributed 7.5% to the overall volumes with previously launched products Ruff 'N' Tuff, and the Road Marking Thermoplastic still experiencing strong growth.

As a separate enterprise, we joined hands with Flowcrete – UK who provide specialist seamless floor solutions primarily for industries, hotels, hospitals and supermarkets. Application jobs have already been completed on an 'Apply & Supply' basis for Kenya Airways, Toyota – Kenya and Sameer Agriculture. Some 75 new customers have been added to the distribution supply chain, and we have continued dealer promotional programmes

From Crown UK – we have successfully launched Sandtex giving us a world rated exterior smooth product.

Manufacturing

During the year 2011 we achieved the following milestones

- 21% growth in production volumes
- 9% growth in productivity

- 99% fill rate achieved
- Successful quality and quantity roll out of 6 (six) new products
- 99% fill rate for running SKU's from 80% in-line with the generation of sales demand

As a responsible corporate citizen, CBKL gives high priority to health and safety of its employees with due importance to conservation of environment and its correlation with achieving business goals.

In order to improve activities for environment, safety and quality, CBKL carries out internal audits at its plant and depots, selecting areas for improvement and creating new measures. Recertification audits have been conducted for ISO 9001:2008 with new criteria and we have been certified through SGS without any non conformance.

In 2012, CBKL plans to be certified for ISO 14001 as part of our commitment to environment conservation by end year.

Research and Development

Our R&D department is focused on product innovations, quality enhancements and value addition for all segments of consumers. There is continued vigor in ensuring formulation optimization, standardization of raw materials, optimization of processes and value engineering support to the customers through out the customer spectrum.

The innovations offered are indicative of the crucial role R&D function has played in maintaining the leadership role in the decorative sector and creating pathways for industrial / auto coatings. Focus on sharing VOC with customers.

Supply Chain

In the year 2011, Planning and Logistics implemented Kanban (Kaizen methodology to optimize inventory), leading to improved customer service (99% fill rates) and 10% finished goods reduction over 2010.

We implemented real time inventory transfers leading better vehicle utilization and hence increased dispatches from the Main central warehouse to the depots. We also witnessed improved housekeeping.

Managing Director's Statement (continued)

Kaizen

Crown embarked on the Kaizen journey in 2009, now it has started taking root in the organization. People involvement and ownership has improved during the year, which will give results on sustainable basis in the long run.

In 2011, Kaizen focused on 5S (House Keeping) to improve the flow of material and information, autonomous maintenance to reduce the breakdowns of the machine. Simultaneously, we also focused on other projects of VSM, pull management and product improvement / input cost reduction. We introduced the KANBAN system for manufacturing goods in "Just-in-Time". In 2011 Kaizen activities were also initiated at depots i.e. Kisumu and Mombasa.

ICT

In the year 2011, the company made the following milestones within the Information Communications Technology function.

Completion of the Disaster Recovery Centre (DRC) at Mogadishu road was realised in the financial year. This is part of disaster recovery planning for the information systems within the company. All business transactions on the Enterprise Resource Planning (ERP) system are replicated online into the recovery centre from the main data centre at Likoni road. In case of a calamity such that the main data centre at Likoni road is not available, users within the enterprise will continue with normal business transactions being supported at the disaster recovery facility.

We were also able to set up a network system at Likoni Road which supports mobile computing for enterprise users in the company. On being given appropriate rights, employees are now able to access all published applications within the company from anywhere in the world on their mobile devices. Thus, users need not come to the office to access or process information. Instead, they can do the same from wherever they are, whenever they desire so long as their devices have access to the internet. This is referred to as "Cloud Computing".

Computerization of the Human Resource function was another milestone that was achieved in 2011.

Employees leave requests whether private, maternal or otherwise are now managed directly by the Human Resources Management system.

UGANDA

Manufacturing under the brand name of 'Regal' progress has been achieved. With greater financial controls the trading position has now been stabilised and the Crown Berger main Board Directors are investigating new investment with regard to manufacturing facilities.

As with Kenya, opportunities exist for extending into Uganda the partnership deals with Plascon, Flowcrete and Crown UK.

The local Economy and the GDP continue to grow, then with the finding of oil we will seek to maintain the strongest possible presence going forward

Corporate Social Responsibility

Within Corporate Social Responsibility, emphasis has been in the investment on people skills. This is manifest in the training of painters on how to optimise their skills to achieve profitable sustainable employment. Under this scheme 3,000 painters were fully trained and certified.

We have greatly enlarged the umbrella for national schools painting under our unique Charity Status Programme.

To increase our reach and therefore the numbers trained we recruited 2 additional Trainers to supplement our existing team. Just training one day is never likely to improve standards and so we have constructed three modules which form the basis of the training cycle, thus every decorator who returns is refreshed and taken further along the training curve.

A link now exists between all these lone independent painters; we have e-mail, mobile contacts which allow us to transmit new information on products or any other related matters.

We have confidential plans for extending our reach and interface for all these Painters who have no centre, no catalyst.

By having this open handed policy we can commit

Rakesh Rao

24th April, 2012

resources and budgets to uplifting national skills, creating professional sustainable employment and with loyalty from both sides enter into social compacts to uplift family values and standards.

2012 Plans and Outlook

As we forge ahead in 2012, our sights will be trained on the following primary objectives:

- Upgrade the manufacturing facility in line with ISO 14001 and to be accredited by end of 2012.
- Automation in the production of powder-based products and filling. This will ensure higher levels of accuracy, also in powder charging to allow improved cycle times and improved house-keeping.
- Increase small-batch manufacturing facilities for improved fill rate of sundry products.

The first quarter of 2012 was retrogressive due to the economic elements outlined in the 2011 review.

As eternal optimists, we venture that the current interest rates will ease by the third quarter, enabling market confidence to drift back into positive gear. The forthcoming elections remain a conundrum it would be unwise to speculate the dates or the effects so we remain neutral.

The certainty we have planned is our expansion within the region. 2012 and 2013 will see Crown Berger emerge as a truly regional player, with plans to be in each country and supported by partners.

As we look to widen our production capability within East Africa, we will not halt our technology advances, now our will to dominate the market and create for ourselves an unfair market share.

Lastly, I would like to express my sincere gratitude to the shareholders, my fellow directors, employees, suppliers for their tireless support which enabled me to have another successful year in the history of Crown.

Corporate Governance

1. 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 standards of Corporate Governance introduced by Capital Market Authority. The Board of Directors governs the company in a way that maximizes shareholder value and is in the best interest of the society.

2. The Board of Directors

The Board comprises of 5 Directors, of whom 3 are Executive. Mr. Rakesh Rao is Managing Director and Mr. Patrick Mwati is the Finance Director. Mr. Hussein Charania is an Executive Director. The Non-Executive Directors are considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company.

The Directors are appointed by the Shareholders and are due for retirement by rotation in accordance with the Company's Articles of Association. They are eligible for re-election. The current composition of the Board is given on page 18. The Board sets the objectives and policies that drive the company's strategic vision, ensures compliance with statutory and regulatory requirements.

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 Shareholders' 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.

3. 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.

4. 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 the Non Executive Director and with attendance by invitation, the Managing Director and other key personnel review the effectiveness of internal controls and discuss the audit reports.

b) Finance Committee

This committee chaired by a Non Executive Director, receives reports from management and reviews Company's financial performance against targets, ensures compliance and issues guidelines where necessary.

The Board appoints other committees as and when required.

5. Communication with Shareholders

The Company is committed to communicating openly with its shareholders on its performance and addressing any other areas of concern. This is achieved through the distribution of the company's Annual Report, holding of the Annual General Meeting where the shareholders have the opportunity to ask questions and freely interact with the Board. Also the company releases notices in the national press of its half-yearly and annual results in compliance with statutory requirements. On a day to day basis the shareholders have direct access to the company's Secretary and Share Registrar who respond to their queries on various issues.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services is disclosed in Note 23, page 49 in notes to the financial statements. No arrangements exist whereby a Director could acquire Company shares on beneficial terms.

Crown Berger Kenya Ltd Shareholder Analysis As at 31/03/2012

Share Holder	Name & Address	Total Shares	Percentage
2402	CROWN PAINTS AND BUILDING PRODUCTS LIMITED P O BOX 78188 NAIROBI	11,402,855	48.06
3207	BARCLAY HOLDINGS LIMITED 35 BARRACK ROAD P O BOX 1777 BELIZE CITY BELIZE	3,234,000	13.63
7135955	LANSBURY LIMITED P.O.BOX 48020 NAIROBI 00100	1,389,926	5.86
604	PAUL WANDERI NDUNGU P.O. BOX 75528 NAIROBI 00200	749,514	3.16
88986	MAHENDRA DAHYABHAI PATEL P.O. BOX 178 NAIROBI 00606	224,020	0.94
2270	MAHENDRA FULCHAND GANDHI AND MRS MALVIKA MAHENDRA GANDHI		
14952098	P O BOX 90393 MOMBASA STANDARD CHARTERED NOMINEES, NON-RESIDENT, A/C 9924	200,939	0.85
280780	P.O. BOX 40984 NAIROBI 00100 JOHN MURIUKI KIBUCHI P.O BOX 20105 - 00200 NAIROBI	200,000	0.84
3316980	KANAKSINH KARSANDAS & SANDIP KANAKSINH BABLA P.O BOX 80631 MOMBASA 80100	175,400	0.74
207179	VICTORIA FURNITURES LIMITED P.O. BOX 10827 NAIROBI 00400	109,200	0.46

Total Holders	10
Total Shares	17,866,534

Grand Total of Shares	2,908
Remaining Shares of company	5,860,466
Remaining Holders	2,898
Grand Total of Holders	23,727,000

Industry statistics for Crown Berger Kenya Ltd As At 31/03/2012

Foreign Companies	5	0.170%	3,459,300	14.580%
Foreign Individuals	21	0.720%	96,775	0.410%
Local Companies	226	7.770%	13,903,036	58.600%
Local Individuals	2,656	91.330%	6,267,889	26.420%
Grand Total	2,908		23,727,000	

Shareholding Ranges For Crown Berger Kenya Ltd As At 31/03/2012

Range No.	Range Description	Shares	Shares (%)	Shareholders	Shareholders(%)
1	1 - 500	222,064	0.94%	1,272	43.74%
2	501 - 5000	1,925,039	8.11%	1,408	48.42%
3	5001 - 10000	753,744	3.18%	110	3.78%
4	10001 - 100000	2,858,419	12.04%	107	3.68%
5	100001 - 1000000	1,940,953	8.18%	8	0.28%
6	> 1000000	16,026,781	67.55%	3	0.10%
Grand Total		23,727,000	-	2,908	-



Corporate Social Responsibility



PATRICK NGILA TRAINING PAINTERS AT THE RAILWAY CLUB



CERTIFICATION AFTER COMPLETING THE WORKSHOP

Finding Projects that require financial assistance in Kenya is not a difficult task, but finding a meaningful project which joins us to a community without any tribal or regional connotations is a more complex process.

The Paint we manufacture, is in Kenyan terms the best quality we can afford, we have joined partnerships with International Paint Companies whom are among the best in the world in their chosen Sectors.

Our reputation is only as good as the paint on the wall or the vehicle. For this we are beholden to the Applicators i.e. the painters for Decorative or the spray painters for Automotive.

In Kenya there are no Polytechnics or Apprenticeship schemes; so technique is handed down or learnt by mistake. There is no formal training available. Crown-Berger therefore made a policy decision, that as the National Brand Leader we should take on this onerous duty and commit our skills, knowledge, technical

and financial resources to train painters across the Nation whether they be Decorators or Spray Painters and whether they be at the Coast or on the edges of Lake Victoria and all places in between.

The first task was how to find them and be able to communicate so as to offer help. It was decided they are so diverse and wide spread that we would have to be the flexible party and be prepared to take our training to them, rather, than calling painters to just three prime Centres. By taking this approach, we avoided favouring any one location or community and this free-handed approach allowed us to treat every location equally; then later determine those which required any extra training input.

To increase our reach and therefore the numbers trained we recruited 2 additional trainers to supplement our existing team. Just training one day is never likely to improve standards and so we have constructed three modules which form the basis of the training cycle, thus every decorator who returns is refreshed and

taken further along the training curve. Today we have some 3,000 painters who have under gone the Crown Paint Skills Cycle.

You learn something new everyday- what we have learnt is that there is a thirst for knowledge, they wish to belong. They almost want to be our family. There are many other facets which we could not be expected to know when we went live, these men and occasional women, were searching for other information on how to open a bank account, how to estimate job costs. This included how to measure area precisely without guessing, as without this information they can not be certain of material cost. How to submit a price proposal, or tender?

A link now exists between all these lone independent painters; we have e-mail, mobile contacts which allow us to transmit new information on products or any other related matters.

We have confidential plans for extending our reach and interface for all these painters who have no centre, no catalyst. The three modules will stay in place as we join with the next 3,000 painters. Rome wasn't built in a day, but we can sustain our exchange of information and technique training into the years ahead.

By having this open handed policy we can commit resources and budgets to uplifting national skills, creating professional sustainable employment and with loyalty from both sides enter into social compacts to uplift family values and standards.

John. Allan Hadley
Chief Marketing Officer.

Corporate Social Responsibility Continued



TALENT SHOW FROM THE CHIDREN AT THE
HOME

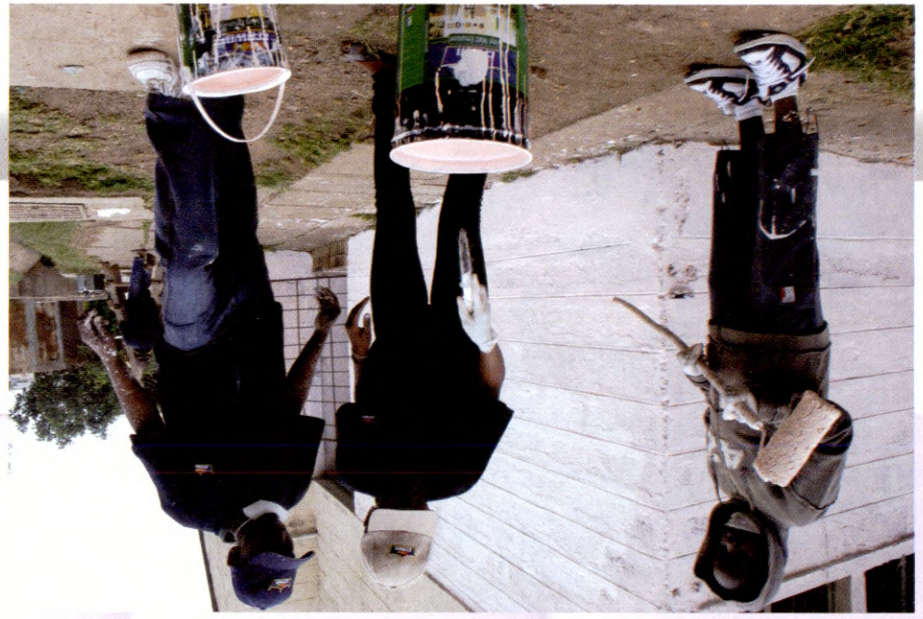


DONATION AT GARDENS CHILDRENS HOME,
KAWANGWARE

Corporate Social Responsibility Continued



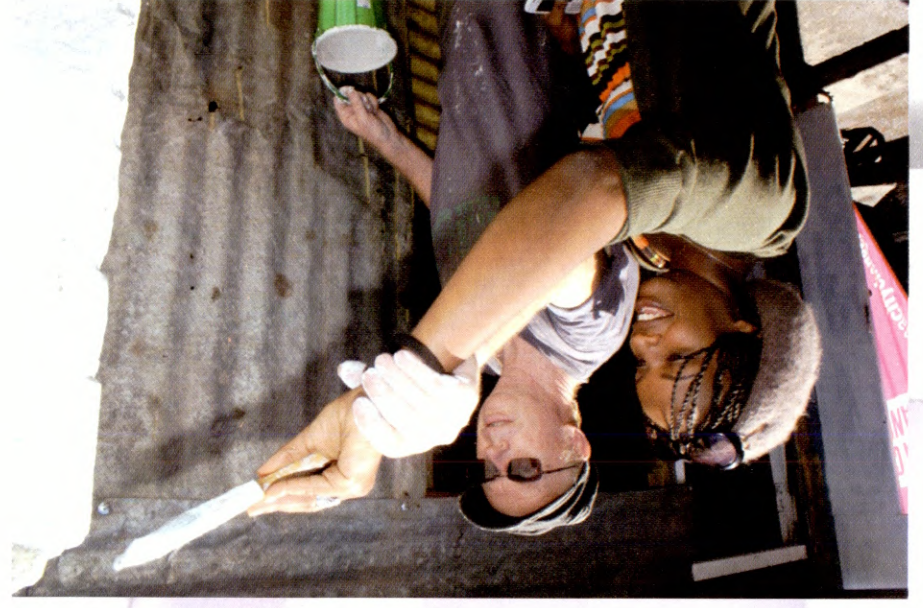
PRISONER SMILES
ABOUT THE
TRANSFORMATION



DORCAS & PATRICK PAINTING INDUSTRIAL
AREA REMAND PRISON



I'M A CITY CHANGER REP, NEIL REECE EV-
ANS (UN HABITAT) WITH THE CHILDREN OF
VIARA EDU. CENTER MATHARE.



ELLY REPRESENTS CROWN AT CROWN -UN
HABITAT CSR PARTENRSHIP

FINANCIAL STATEMENTS





Corporate Information

Crown-Berger Kenya Limited And Subsidiaries
Company Information
For The Year Ended 31 December 2011

PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

BANKERS

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

Commercial Bank of Africa
P. O. Box 30437 - 00100
Nairobi

SOLICITORS

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

SECRETARY

Conrad Nyukuri
P.O. Box 41968 - 00100
Nairobi.

REGISTRARS

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

AUDITORS

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

Report of the Directors

For The Year Ended 31 December 2011

The directors submit their report and the audited financial statements for the year ended 31 December 2011, which show the state of the Group's affairs.

1. PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiaries are the manufacture and sale of paints, adhesives, decorating sundries, PVA emulsion and alkylid resins.

Crown-Berger Allied Industries Limited is a wholly owned subsidiary of Crown-Berger Kenya Limited which is involved in the manufacture of adhesives.

2. GROUP RESULTS

The results for the year are set out on page 22

3. COMPANY RESULTS

The results for the year are set out on page 26.

4. DIVIDENDS

Subject to approval by the shareholders, the directors recommend the payment of a dividend of KShs 1.25 (2010: KShs 1.25) per share amounting to KShs 29,658,750 (2010: KShs 29,658,750).

5. 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.

6. RESERVES

The reserves of the Group and the company are set out on page 46, note 13.

7. DIRECTORS

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

M. Charania	-	Chairman (Non-executive)
R.K. Rao	-	Managing Director (Executive)
F.G.K. Maina	-	Non-executive
P.M. Mwati	-	Executive
H.H.R.J. Charania	-	Executive

8. AUDITORS

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

9. GOING CONCERN

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

By Order of the Board

Conrad Nyukuri

Secretary

24th April 2012

Statement Of Directors' Responsibilities

ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give fair view of the state of financial 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 that the directors ensure that 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, present fairly, in all material respects, 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.

No events after reporting date require disclosure or adjustment to the financial statements.

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



Rakesh Rao
Director



Patrick Mwati
Director

24th April 2012

Report of the Independent Auditors

To the members of Crown-Berger Kenya Limited and Subsidiaries

Report on the financial statements

We have audited the accompanying consolidated financial statements of Crown-Berger Kenya Limited (the company) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the statement of financial position of the company as at 31 December 2011, the statement of comprehensive income and statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 21 to 57.

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 in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an independent opinion on these 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 about 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 judgment, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group and of the company as at 31 December 2011 and of the financial performance and cash flows of the Group and the company for the year then ended in accordance with International Financial Reporting Standards.

Report On Other Legal Requirements

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

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account have been kept by the Group and the company, so far as appears from our examination of those books; and,
- iii) The Group and the company's statements of financial position and comprehensive income are in agreement with the books of account.

Certified Public Accountants

Nairobi



24th April 2012

Consolidated Statement Of Financial Position

As At 31 December 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	625,116	464,451
Intangible assets	4	11,632	18,263
Prepaid leases	5	9,289	9,554
		646,037	492,268
CURRENT ASSETS			
Inventories	8	694,858	445,785
Trade and other receivables	9	633,600	550,893
Amounts due from related parties	10(ii)	56,656	371,255
Tax recoverable	11	23,282	-
Cash and cash equivalents		160,919	112,136
		1,569,315	1,480,069
TOTAL ASSETS		2,215,352	1,972,337
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	118,635	118,635
Reserves	13	933,785	783,710
		1,052,420	902,345
NON-CURRENT LIABILITIES			
Deferred tax	15	90,934	78,211
CURRENT LIABILITIES			
Bank overdraft	16	47,681	24,887
Interest bearing loans and borrowings	17	146,706	83,415
Commercial paper	18	150,246	113,403
Amounts due to related parties	10(ii)	184,641	339,728
Trade and other payables	19	542,724	392,719
Tax payable	11	-	37,629
		1,071,998	991,781
TOTAL EQUITY AND LIABILITIES		2,215,352	1,972,337

The financial statements were approved by the Board of Directors on 24th April 2012 and signed on its behalf by:

Rakesh Rao
Director



Patrick Mwati
Director



Consolidated Statement Of Comprehensive Income

For The Year Ended 31 December 2011

	2011	2010	
	KShs'000	KShs'000	
REVENUE	20	3,853,569	3,068,468
COST OF SALES	21	(2,524,524)	(1,889,621)
GROSS PROFIT		1,329,045	1,178,847
OTHER INCOME	22	37,348	42,608
EXPENSES:-			
Administration and establishment	23	(746,437)	(665,058)
Selling and distribution	24	(381,507)	(359,179)
Finance costs	25	(37,910)	(27,738)
PROFIT BEFORE TAX	27	200,539	169,480
TAX EXPENSE	11	(71,537)	(78,063)
PROFIT FOR THE YEAR		129,002	91,417
OTHER COMPREHENSIVE INCOME			
Revaluation of property plant and equipment		72,474	-
Deferred income tax on revaluation		(21,742)	-
Other comprehensive income net of taxes		50,732	-
Total comprehensive income		179,734	91,417
ATTRIBUTABLE TO:			
Owners of the parent		179,734	91,417
Non-Controlling interest		-	-
Basic and diluted earnings per share	28	5.44	3.85

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2011

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2010		118,635	80,174	93,486	544,648	836,943
Transfer of excess depreciation on revaluation		-	-	(8,504)	8,504	-
Deferred tax on excess depreciation		-	-	3,644	-	3,644
Total comprehensive income		-	-	-	91,417	91,417
2009 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2010		118,635	80,174	88,626	614,910	902,345
At 1 January 2011		118,635	80,174	88,626	614,910	902,345
Profit for the period		-	-	-	129,002	129,002
Other comprehensive income		-	-	50,732	-	50,732
Total comprehensive income		-	-	50,732	129,002	179,734
2010 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2011		118,635	80,174	139,358	714,253	1,052,420

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2011

OPERATING ACTIVITIES			2011	2010
			KShs'000	KShs'000
Profit before tax			200,539	169,480
Adjustments for:-				
Depreciation			75,636	75,488
Amortisation of intangible assets			8,874	8,742
Amortisation of prepaid leases on land			265	265
Impairment of receivables			31,949	38,860
Recoveries of doubtful debts			(7,941)	(22,565)
Unrealised foreign exchange (gain)/loss			(4,414)	6,732
Interest expense			37,910	27,738
Interest income			(1,093)	(607)
Loss on disposal of plant and equipment			920	(114)
Operating profit before working capital changes			342,645	304,019
(increase)/ decrease in trade and other receivables			(106,715)	(100,022)
(increase)/ decrease in inventories			(249,073)	73,537
Increase/(decrease) in trade and other payables			150,005	(22,908)
Increase in related party balances			159,512	73,304
Cash flows generated from operations			296,374	327,930
Income tax paid	11		(141,467)	(50,984)
Interest received			1,093	607
Interest paid			(37,910)	(27,738)
Net cash generated from operating activities			118,090	249,815
INVESTING ACTIVITIES				
Purchase of property, plant and equipment			(166,743)	(43,518)
Purchase of intangible assets			(2,243)	(1,186)
Proceeds on sale of plant and equipment			1,996	341
Net cash used in investing activities			(166,990)	(44,363)
FINANCING ACTIVITIES				
Loan proceeds			572,697	396,139
Loan payment			(509,406)	(355,309)
Borrowings on commercial paper			568,551	271,913
Commercial paper payment			(531,708)	(434,523)
Dividends paid on ordinary shares			(29,659)	(29,659)
Net cash generated from / (used in) financing activities			70,475	(151,439)
Net increase in cash and cash equivalents			21,575	54,013
Cash and cash equivalents at the beginning of the year			87,249	39,968
Effect of exchange rate changes			4,414	(6,732)
Cash and cash equivalents at the end of the year	29		113,238	87,249

Note

Company Statement Of Financial Position

As At 31 December 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3	588,640	420,977
Intangible assets	4	10,753	17,668
Prepaid leases on land	5	9,289	9,554
Investments in subsidiary companies	6	12,000	12,000
Deposit for shares	7	204,028	204,028
		824,710	664,227
CURRENT ASSETS			
Inventories	8	642,137	413,076
Trade and other receivables	9	560,222	451,772
Tax recoverable	11	23,282	-
Amounts due from related parties	10(ii)	249,669	534,110
Cash and cash equivalents		152,506	104,433
		1,627,816	1,503,391
TOTAL ASSETS		2,452,526	2,167,618
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	12	118,635	118,635
Reserves	13	1,194,420	1,002,640
		1,313,055	1,121,275
NON CURRENT LIABILITIES			
Deferred tax	15	90,934	78,211
CURRENT LIABILITIES			
Bank overdraft	16	47,681	24,887
Interest bearing loans and borrowings	17	146,706	83,415
Commercial paper	18	150,246	113,403
Trade and other payables	19	511,859	361,707
Amounts due to related parties	10(ii)	192,045	343,080
Tax payable	11	-	41,640
		1,048,537	968,132
TOTAL EQUITY AND LIABILITIES		2,452,526	2,167,618

The financial statements were approved by the Board of Directors on 24th April 2012 and signed on its behalf by: -

Rakesh Rao
Director



Patrick Mwati
Director



Company Statement Of Comprehensive Income

For The Year Ended 31 December 2011

OPERATING ACTIVITIES			
	2011	2010	
	KShs'000	KShs'000	
REVENUE	3,803,769	2,983,306	
COST OF SALES	(2,514,040)	(1,841,900)	
GROSS PROFIT	1,289,729	1,141,406	
OTHER INCOME	33,400	35,826	
EXPENSES: -			
Administration and establishment	(690,358)	(597,408)	
Selling and distribution	(352,617)	(325,891)	
Finance costs	(37,910)	(27,250)	
PROFIT BEFORE TAX	27	226,683	
TAX EXPENSE	11	(78,063)	
PROFIT FOR THE YEAR	170,707	148,620	
OTHER COMPREHENSIVE INCOME			
Revaluation of property plant & Equipment	72,474	-	
Deferred income tax on revaluation	(21,742)	-	
Other comprehensive income net of taxes	50,732	-	
Total comprehensive income	221,439	148,620	
Basic and diluted earnings per share	28	7.19	6.26

Company Statement Of Changes In Equity

For The Year Ended 31 December 2011

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 January 2010		118,635	80,174	133,862	665,999	998,670
Transfer of excess depreciation on revaluation		-	-	(8,504)	8,504	-
Deferred tax on excess depreciation				3,644	-	3,644
Total comprehensive income / profit for the year		-	-		148,620	148,620
2009 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2010		118,635	80,174	129,002	793,464	1,121,275
At 1 January 2011		118,635	80,174	129,002	793,464	1,121,275
Profit for the year					170,707	170,707
Other comprehensive income		-	-	50,732	-	50,732
Total comprehensive income		-	-	50,732	170,707	221,439
2010 final dividend paid	14	-	-	-	(29,659)	(29,659)
At 31 December 2011		118,635	80,174	179,734	934,512	1,313,055

Company Statement Of Cash Flows

For The Year Ended 31 December 2011

	2011	2010	
CASH FLOWS FROM OPERATING ACTIVITIES	KShs'000	KShs'000	
Profit before tax	242,244	226,683	
Adjustments for:-			
Depreciation of property, plant and equipment	67,743	67,231	3
Amortisation of intangible assets	8,718	8,586	4
Amortisation of prepaid leases on land	265	265	5
Impairment of receivables	14,349	11,383	
Recoveries of doubtful debts	(7,593)	(19,887)	
Unrealised exchange (gain) / loss	(9,653)	3,087	
Interest expense	37,910	27,250	
Interest income	(1,093)	(573)	
Gain on disposal of property and equipment	(890)	(99)	
Operating profit before working capital changes	352,000	323,926	
Increase in trade and other receivables	(115,206)	(56,756)	
(Increase) / decrease in inventories	(229,061)	57,955	
Increase / (decrease) in trade and other payables	150,152	(14,071)	
Increase in related party balances	133,406	7,356	
Cash generated from operations	291,291	318,410	
Income tax paid	(145,478)	(51,284)	11
Interest income	1,093	573	
Interest paid	(37,910)	(27,250)	
Net cash generated from operating activities	108,996	240,449	
INVESTING ACTIVITIES			
Purchase of property and equipment	(162,932)	(39,295)	
Purchase of intangible assets	(1,803)	(1,186)	
Proceeds from sale of property and equipment	890	109	
Net cash used in investing activities	(163,845)	(40,372)	
FINANCING ACTIVITIES			
Loan proceeds	572,697	396,139	
Loan payment	(509,406)	(355,309)	
Borrowings on commercial paper	568,551	271,913	
Commercial paper payment	(531,708)	(434,523)	
Dividends paid on ordinary shares	(29,659)	(29,659)	
Net cash generated from / (used) in financing activities	70,475	(151,439)	
Net increase cash and cash equivalents	15,626	48,638	
Cash and cash equivalents at the beginning of the year	79,546	33,995	
Effect of exchange rate changes	9,653	(3,087)	
Cash and cash equivalents at the end of the year	104,825	79,546	29

Notes To The Financial Statements

For The Year Ended 31 December 2011

1. SIGNIFICANT ACCOUNTING POLICIES

a) Corporate information

The financial statements of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 24 April 2012. The Group is a limited company incorporated and domiciled in Kenya and whose shares are publicly traded. The registered office is located at Mogadishu Road, Industrial Area in Nairobi.

b) Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis as modified by the revaluation of certain properties, certain financial instruments at fair value and impaired assets at their recoverable amounts. The financial statements are presented in Kenya Shillings and all values are rounded to the nearest thousand, except when otherwise indicated.

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December each year. The subsidiaries include Crown-Berger Allied Industries Limited and Crown Buildings and Products Limited - Uganda, wholly owned by the Company.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

d) Foreign currency transactions

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences arising on settlement or translation of monetary items are taken to profit or loss with the exception of all monetary items that are designated as part of the hedge of the company's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes, discounts, rebates or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable. It is included in finance income in the statement of comprehensive income.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

Rental income

Income arising from operating leases on machinery is accounted for on a straight line basis over the lease terms.

All other income earned by the Group is recognised as it accrues.

f) Taxation

Current income tax

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

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in profit or loss. Income tax items are recognised in correlation to underlying transactions either in other comprehensive income, profit and loss or directly in equity.

Deferred tax

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

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

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

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

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

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

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

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

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

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

Value added tax

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

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

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

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

g) Property, plant and equipment

Buildings, plant and machinery are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed with sufficient regularity to ensure

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

g) Property, plant and equipment (continued)

that the fair value of the revalued asset does not differ materially from its carrying amount.

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

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

All other assets are stated at cost less accumulated depreciation and any accumulated impairment losses, if any.

Depreciation is calculated on a 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 as follows:

Building	2%
Plant and machinery	8% - 10%
Fixtures and fittings	12½%
Motor vehicles	20% - 25%
Computers and equipment	20%

An item of property, plant and equipment and any significant part initially recognized is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

h) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that

right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

j) Intangible assets

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

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

xj) Intangible assets (continued)

be impaired. The amortisation period and the amortisation method for an intangible asset, is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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

k) Financial instruments - initial recognition and subsequent measurement:

l) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to contractual provisions of the instrument. All financial assets other are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. The Group's financial assets include cash, deposit for shares and loans and receivables.

Subsequent measurement

The subsequent measurement of the financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. An estimate is made of impaired receivables based on review of all outstanding amounts at year-end. Bad debts are written off after all efforts of recovery have been exhausted. The losses arising from impairment are recognised in the statement of comprehensive income as part of other operating expenses.

Deposit for shares

Deposit for shares represents an amount set aside for acquisition of shares pending allotment and it is carried at fair value through profit and loss.

The cost of the deposit for shares approximates the fair value.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

iii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

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

Trade payables

Trade payables are stated at amortised cost using the effective interest method.

Loans and borrowings

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires when an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original

liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of financial instruments

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

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

v) Fair value of financial instruments

The fair value for financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

l) Inventories

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

Raw materials

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

Finished goods and work-in-progress

Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

m) Impairment of non financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

m) Impairment of non financial assets (continues)

costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

n) Cash and cash equivalents

The Group considers all balances with less than 90 days maturity from the date of acquisition, as cash. The cost of cash equivalent approximates the fair value due to the short term nature thereof.

For the purpose of cash flows, cash and cash equivalents consist of cash at banks and on hand, net of outstanding bank overdrafts.

o) Provisions

Provisions are recognised 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

p) Employee benefits

Defined contributions provident fund

The Group operates a defined contributions post-employment provident fund for eligible non-unionisable employees. The fund is funded by contributions from the employees and the Group. The assets of the fund are held and administered independently of the Group's assets. The Group's contributions to the fund are charged to profit or loss in the year in which they are incurred.

Past service costs are recognised immediately in profit or loss, unless the changes to the provident fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Statutory pension scheme

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 profit or loss in the year to which they relate.

Employees' entitlements

The monetary benefits for employees' accrued annual leave entitlement at the reporting date are recognised as an expense accrual.

q) Significant accounting judgements, estimates and assumptions

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

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

Allowances for obsolete inventories

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

Impairment of financial instruments

The Group reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

Operating Lease Commitments-Group as Lessor

The Group has entered into commercial property leases on some of its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Estimates and assumptions

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

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

Property, plant 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.

Impairment of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters - amendment to IFRS 1 effective 1 January 2011.
- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing financial liabilities with equity instruments effective 1 January 2011.
- Improvements to IFRSs (May 2010)

The Group has adopted the following standards, amendments and interpretations to published standards which are mandatory for accounting periods beginning on or after 1 January 2011.

IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters -

amendment to IFRS 1 effective 1 January 2011: The amendment allows for first-time adopters of IFRS to utilise the transitional provisions of IFRS 7. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 24 Related Party Transactions (Amendment): The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same

government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment): The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments.

The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment): The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Kenya, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments effective 1 January 2011:

The interpretation clarifies that equity instruments issued to extinguish a financial liability are considered to be 'paid' in accordance with IAS 39. Equity instruments are required to be measured at their fair value, unless fair value cannot be reliably measured in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but had no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011.

IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (Continued)

improving disclosures by requiring qualitative information to put the quantitative information in context.
IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.
Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.
IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income: The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.
IAS 12 Income Taxes - Recovery of Underlying Assets: The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the

revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment): The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011): As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011): As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting of financial assets and liabilities - IAS 32 Financial Instruments: Presentation (Amendment) - Offsetting Financial Assets and Financial Liabilities. The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

§ must not be contingent on a future event; and
§ must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Group is still in the process of determining how it will impact on the financial position or performance upon adoption.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements: The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (Continued)
- about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements: IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities: IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement: IFRS 13 establishes a single source of

guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The directors anticipate that the adoption of these standards will have no material effect on the financial statements of the Group in the period of initial application, but additional disclosures will be required.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

3. PROPERTY, PLANT AND EQUIPMENT

GROUP - Year ended 31 December 2011

Cost or valuation At January 2011	Additions	Disposals	Revaluation	At 31 December 2011		Comprising: Valuation Cost	Accumulated depreciation At 1 January 2011	Charge for the year	Eliminated on disposals	At 31 December 2011	Net Book Value At 31 December 2011
				20,528	-	20,528	-	-	-	20,528	20,528
Freehold land	KShs'000	KShs'000	KShs'000	261,131	332,434	70,733	289,508	197,107	45,608	191,963	298,407
Buildings	KShs'000	KShs'000	KShs'000	332,434	363,313	109,921	335,603	191,963	45,608	191,963	298,407
Plant and Machinery	KShs'000	KShs'000	KShs'000	70,733	70,733	76,287	326,792	191,963	45,608	191,963	298,407
Motor vehicles	KShs'000	KShs'000	KShs'000	289,508	335,603	326,792	335,603	191,963	45,608	191,963	298,407
Fixtures and equipment	KShs'000	KShs'000	KShs'000	166,743	166,743	166,743	166,743	191,963	45,608	191,963	298,407
Total	KShs'000	KShs'000	KShs'000	953,806	1,187,707	794,657	1,187,707	489,355	(2,400)	562,591	625,116

Cost or valuation
At January 2011
Additions
Disposals
Revaluation
At 31 December 2011
Comprising:
Valuation
Cost
Accumulated depreciation
At 1 January 2011
Charge for the year
Eliminated on
disposals
At 31 December 2011
Net Book Value
At 31 December 2011

GROUP - Year ended 31 December 2010

Cost or valuation At January 2010	Additions	Disposals	At 31 December 2010		Comprising: Valuation Cost	Accumulated depreciation At 1 January 2010	Charge for the year	Eliminated on disposals	At 31 December 2010	Net Book Value At 31 December 2010
			261,131	261,131	261,131	261,131	261,131	261,131	261,131	261,131
Buildings	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Plant and Machinery	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Motor vehicles	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Fixtures and equipment	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Total	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000

Cost or valuation
At January 2010
Additions
Disposals
At 31 December 2010
Comprising:
Valuation
Cost
Accumulated depreciation
At 1 January 2010
Charge for the year
Eliminated on disposals
At 31 December 2010
Net Book Value
At 31 December 2010

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

If all assets, except freehold land (2010: only buildings and plant and machinery) were measured using the cost model, the carrying amount would be as follows:

	2011 KShs'000	2010 KShs'000
Cost	774,129	415,158
Accumulated depreciation	(378,650)	(220,459)
	<u>395,479</u>	<u>194,699</u>

COMPANY - Year ended 31 December 2011

	Freehold Land	Buildings	Plant and Machinery	Motor vehicles	Fixtures fittings and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation						
At 1 January 2011	-	261,131	253,204	61,723	271,372	847,430
Additions	20,528	53,195	17,777	17,031	54,401	162,932
Disposals	-	-	-	(2,250)	-	(2,250)
Revaluation adjustment	-	44,017	13,158	24,624	(9,325)	72,474
At 31 December 2011	<u>20,528</u>	<u>358,343</u>	<u>284,139</u>	<u>101,128</u>	<u>316,448</u>	<u>1,080,586</u>
Comprising:						
Valuation	-	206,362	65,078	24,624	(9,325)	286,739
Cost	<u>20,528</u>	<u>151,981</u>	<u>219,061</u>	<u>76,504</u>	<u>325,773</u>	<u>793,847</u>
	<u>20,528</u>	<u>358,343</u>	<u>284,139</u>	<u>101,128</u>	<u>316,448</u>	<u>1,080,586</u>
Accumulated depreciation						
At 1 January 2011	-	53,085	148,296	38,080	186,992	426,453
Charge for the year	-	5,258	15,119	13,149	34,217	67,743
Eliminated on disposals	-	-	-	(2,250)	-	(2,250)
At 31 December 2011	<u>-</u>	<u>58,343</u>	<u>163,415</u>	<u>48,979</u>	<u>221,209</u>	<u>491,946</u>
Net Book Value						
At 31 December 2011	<u>20,528</u>	<u>300,000</u>	<u>120,724</u>	<u>52,149</u>	<u>95,239</u>	<u>588,640</u>

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

COMPANY - Year ended 31 December 2010

Cost or valuation	At 01 January 2010	Additions	Disposals	At 31 December 2010	Comprising:	Valuation	Cost
	260,235	896	-	261,131	253,204	61,723	271,372
	248,454	4,750	-	253,204	253,204	61,723	271,372
	54,744	7,649	(670)	61,723	61,723	-	271,372
	245,372	26,000	-	271,372	271,372	-	271,372
	808,805	39,295	(670)	847,430	847,430	214,265	633,165
	261,131	896	-	261,131	253,204	61,723	271,372
	48,354	134,748	29,339	147,441	13,548	9,401	39,551
	4,731	13,548	9,401	39,551	-	-	-
	-	-	(660)	-	-	-	-
	53,085	148,296	38,080	186,992	148,296	38,080	186,992
	208,046	104,908	23,643	84,380	208,046	104,908	84,380
	420,977	420,977		420,977	420,977		420,977

If all assets, except freehold land (2010: only buildings and plant and machinery) were measured using the cost model, the carrying amount would be as follows:

Cost	2011	2010
Accumulated depreciation	773,319	300,071
	(390,669)	(118,231)
	382,650	181,840

All assets, except freehold land, were revalued on 01 December 2011. 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
Fixtures, fittings and equipment	-	Open market value

The valuation was undertaken by independent professional valuers, Real Appraisal Limited. The revaluation surplus was credited to revaluation reserve while the revaluation deficit was charged to profit or loss.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

4. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Cost				
At 1 January	55,035	53,849	54,254	53,068
Additions	2,243	1,186	1,803	1,186
At 31 December	57,278	55,035	56,057	54,254
Amortisation				
At 1 January	36,772	28,030	36,586	28,000
Charge for the year	8,874	8,742	8,718	8,586
At 31 December	45,646	36,772	45,304	36,586
NET BOOK VALUE	11,632	18,263	10,753	17,668

Intangible assets relate to computer software

5. PREPAID LEASES ON LAND

Cost				
At 1 January and December	13,000	13,000	13,000	13,000
Amortisation				
At 1 January	3,446	3,181	3,446	3,181
Charge for the year	265	265	265	265
At 31 December	3,711	3,446	3,711	3,446
NET BOOK VALUE	9,289	9,554	9,289	9,554

The prepaid leases on land consist of two leases as follows:

- Mogadishu Road factory - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2011 is 35years.
- Likoni Road offices - amortised over the lease period of 89 years. The un-expired lease period as at 31 December 2011 is 35 years.

6. INVESTMENT IN SUBSIDIARIES

Details of investment	Country of incorporation	Activity	COMPANY	
			2011 KShs'000	2010 KShs'000
Crown-Berger Allied Industries Limited (10,000 ordinary shares of KShs 1,000 each)	Kenya	Manufacture of adhesives	10,000	10,000
Crown Buildings and Products Limited -Uganda (5,000 ordinary shares of KShs 400 each)	Uganda	Selling of auto paints and decorative products	2,000	2,000
			12,000	12,000

Crown-Berger Kenya Limited owns 100% of Crown-Berger Allied Industries Limited and Crown Buildings and Products Limited - Uganda.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

7. DEPOSIT FOR SHARES

Crown Buildings and Products Limited	80,000	124,028
Crown-Berger Allied Industries Limited	80,000	124,028

COMPANY	2011	2010
	KShs'000	KShs'000
	80,000	80,000
	124,028	124,028
	204,028	204,028

This relates to deposit made in Crown Buildings and Products Limited - Uganda and capitalisation of amounts due from Crown-Berger Allied Industries Limited pending allotment of shares. Deposit for shares is evaluated by the company based on assessment of the risk of impairment of the subsidiary companies. As at the close of the year, there were no impairment indicators and the fair value has not changed from the previous year.

8. INVENTORIES

	2011	2010		2011	2010
	KShs'000	KShs'000		KShs'000	KShs'000
Finished goods	293,809	203,727		276,803	189,070
Raw materials	325,149	193,806		289,434	175,754
Goods in transit	75,900	48,252		75,900	48,252
	694,858	445,785		642,137	413,076

The amount of inventories expensed during the year is KShs. 10,879,227 (2010: KShs. 1,659,208) for the group and KShs. 10,879,227 (2010: KShs. 1,630,147) for the company, which is recognised in cost of sales.

9. TRADE AND OTHER RECEIVABLES

	2011	2010		2011	2010
	KShs'000	KShs'000		KShs'000	KShs'000
Trade receivables	572,195	497,366		510,568	408,446
Other receivables	35,655	12,529		23,904	2,402
Prepayments	25,750	40,998		25,750	40,924
	633,600	550,893		560,222	451,772

Other receivables consist of staff loans and deposits with suppliers. Prepayments were made in the ordinary course of business with regards to insurance and computer software licence.

As at 31 December 2011, trade receivables at initial value of KShs 99,706,000 (2010: KShs 93,774,000) were impaired and fully provided for. See below for the movements in the provision of impairment of receivables.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

9. TRADE AND OTHER RECEIVABLES (Continued)

	GROUP		COMPANY	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
At beginning	93,774	80,693	68,477	80,195
Charge for the year	31,949	38,860	14,349	11,383
Used during the year (write-off)	(18,076)	(3,214)	(477)	(3,214)
Unused amounts reversed (recoveries)	(7,941)	(22,565)	(7,593)	(19,887)
	99,706	93,774	74,756	68,477
Ageing analysis				
Less than 30 days(neither past due nor impaired)	247,681	300,229	187,272	270,403
31 to 60 days	109,638	82,006	109,333	72,872
61 days to 90 days	49,802	46,709	49,802	35,704
Over 90 days	264,780	162,196	238,917	97,944
	671,901	591,140	585,324	476,923
Impaired	(99,706)	(93,774)	(74,756)	(68,477)
	572,195	497,366	510,568	408,446

Trade receivables are non-interest bearing and are generally on 60 days terms.

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The Company is controlled by Crown Paints and Building Products Limited (incorporated in Kenya) which owns 48% of the Company's shares. Barclay Holdings Limited incorporated in Belize Off-Shore Centre holds 13.69% of the Company's shares. Crown Paints and Building Products Limited is a wholly owned subsidiary of Barclay Holdings Limited. Thus the ultimate parent Company for Crown Berger Kenya Limited is Barclay Holdings Limited. The remaining 38.31% of the shares are widely held. Crown-Berger Allied Industries Limited and Crown Buildings and Products Limited - Uganda are wholly owned subsidiaries of the Company.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011
10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)
The following transactions were carried out with related parties:

	GROUP		COMPANY	
	2011	2010	2011	2010
(i) Sale and services rendered:	KShs'000	KShs'000	KShs'000	KShs'000
Crown-Berger Allied Industries Limited	-	-	9,326	4,869
Tintas Berger	8,584	-	8,584	-
Crown Buildings and Products Limited - Uganda	-	-	54,920	75,128
Purchase of goods	-	-	56,188	27,258
Crown-Berger Allied Industries Limited	-	-	5,700	180,933
Daxian Limited	229,690	180,933	229,690	-
Crown Paints and Building Products Limited	-	-	-	-

(ii) Outstanding balances arising from sale and services rendered:

	GROUP		COMPANY	
	2011	2010	2011	2010
Receivables from related parties:	KShs'000	KShs'000	KShs'000	KShs'000
Crown Paints and Building Products Limited	52,894	371,255	52,894	371,255
Crown-Berger Allied Industries Limited	-	-	2,642	4,371
Crown Building and Products Limited - Uganda	-	-	194,133	158,484
Crown Paints - Rwanda	3,762	-	-	-
Payables to related parties:	56,656	371,255	249,669	534,110
Crown Paints and Building Products Limited	-	17,961	-	17,961
Crown Paints Allied Industries Limited	-	-	7,404	3,352
Crown-Berger Allied Industries Limited	184,641	321,767	184,641	321,767
Daxian Limited	184,641	339,728	192,045	343,080

(iii) Key management personnel compensation
Remuneration
Retirement benefits

101,933	72,624	101,933	72,624
4,427	1,691	4,427	1,691
106,360	74,315	106,360	74,315
6,994	7,413	6,994	7,413
66,156	38,211	66,156	38,211
73,150	45,624	73,150	45,624

(iv) Directors' remuneration
Fees for services as directors
Other emoluments (included in key management compensation above)

Terms and conditions of transactions with related parties Amount due from and due to related parties are non interest bearing and current. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
11. TAXATION				
STATEMENT OF FINANCIAL POSITION				
Balance brought forward	(37,629)	5,455	(41,640)	1,144
Charge for the year	(80,556)	(94,054)	(80,556)	(94,054)
Under-provision in previous year	-	(14)	-	(14)
Payments during the year	141,467	50,984	145,478	51,284
Tax recoverable	23,282	(37,629)	23,282	(41,640)
STATEMENT OF COMPREHENSIVE INCOME				
Current tax at 30 % on the taxable profit for the year	80,556	94,054	80,556	94,054
Under-provision in previous year	-	14	-	14
Deferred tax	(9,019)	(16,005)	(9,019)	(16,005)
	71,537	78,063	71,537	78,063
Deferred income tax on revaluation	21,742	-	21,742	-
	93,279	78,063	93,279	78,063
Reconciliation of taxation expense to tax based on accounting profit				
Accounting profit before tax	200,539	169,480	242,244	226,683
Tax at applicable rate of 30%	60,161	50,844	72,673	68,005
Tax effects on items not deducted for tax	28,220	22,647	15,708	22,647
Tax effect on expenses not deductible for tax purposes	(16,844)	4,558	(16,844)	(12,603)
Under-provision in previous year	-	14	-	14
	71,537	78,063	71,537	78,063

Deferred income tax on revaluation is based on 30% of the revaluation surplus.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

12. SHARE CAPITAL

Authorised: 25,000,000 ordinary shares of KShs.5 each	Issued and fully paid: 23,727,000 (2008: 23,727,000) ordinary shares of KShs.5 each		
		GROUP	COMPANY
		2011 KShs'000	2011 KShs'000
		2010 KShs'000	2010 KShs'000
		125,000	125,000
		125,000	125,000

13. RESERVES

Share premium	Revaluation reserve	Retained earnings		
			GROUP	COMPANY
			2011 KShs'000	2011 KShs'000
			2010 KShs'000	2010 KShs'000
80,174	139,358	714,253	80,174	80,174
88,626	88,626	614,910	88,626	179,734
80,174	80,174	934,512	80,174	934,512
				793,464
933,785	783,710	1,194,420	933,785	1,002,640

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

14. DIVIDENDS

Final dividend for 2010 KShs. 1.25 per share (2009: KShs. 1.25 per share)	Proposed for approval at the annual general meeting (not recognized as a liability as at 31 December)	Dividend on ordinary shares		
			GROUP	COMPANY
			2011 KShs'000	2011 KShs'000
			2010 KShs'000	2010 KShs'000
29,659	29,659	29,659	29,659	29,659
29,659	29,659	29,659	29,659	29,659

Dividend per share is calculated on dividends of KShs 29,658,750(2010: KShs 29,658,750) and on the number of shares in issue at the respective Statement of financial position dates. Payment of the dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-residents.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

15. DEFERRED TAX LIABILITY

Movements in deferred tax during the year were as follows:

	Balance at 1 January KShs'000	Statement of Comprehensive income KShs'000	Equity KShs'000	Balance at 31 December KShs'000
Year end 31 December 2011				
Accelerated capital allowances	52,106	2,113	-	54,219
Unrealised exchange gain	-	2,896	-	2,896
Unrealised exchange loss	(926)	926	-	-
Revaluation reserve	38,701	-	21,742	60,443
Allowance for doubtful debts		(7,579)	(14,848)	(22,427)
Provision for staff leave	(4,091)	(106)	-	(4,197)
	78,211	(9,019)	21,742	90,934
Year end 31 December 2010				
Accelerated capital allowances	56,767	(4,661)	-	52,106
Unrealised exchange gain	2,871	(2,871)	-	-
Unrealised exchange loss	(958)	32	-	(926)
Revaluation reserve	42,345	-	(3,644)	38,701
Allowance for doubtful debts	-	(7,579)		(7,579)
Provision for staff leave	(3,165)	(926)	-	(4,091)
	97,860	(16,005)	(3,644)	78,211

16. BANK OVERDRAFT

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Bank overdraft	47,681	24,887	47,681	24,887

The bank overdraft facility from Kenya Commercial Bank Limited and Commercial Bank of Africa is to the extent of KShs. 70 million and KShs. 110 million respectively and is secured pari-passu by debenture of KShs. 602 million over the assets of the Group supported by a supplementary charge over LR 209/5792 along Mogadishu road and LR 209/4275 along Likoni road.

The weighted average interest rate on the overdraft at year-end was 11.25% (2010: 15%).

For The Year Ended 31 December 2011

GROUP COMPANY

Likoni road.

GROUP COMPANY

COMPANY

150,246	113,403	150,246	113,403
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	2011	2010	2011	2010
2010				

027 020 007 177 700 020 002 107

435,762	279,664	415,109	256,470
21,795	23,698	14,566	18,527
35,737	39,957	39,784	35,748

§ Accruals are non-interest bearing and represent liabilities in relation to expenses incurred but for which invoices had not been received as at year end.

GROUP COMPANY

2,971,457	2,561,235	2,923,374	2,492,501
394,861	311,537	394,680	311,537
485,715	179,268	485,715	179,268
995	15,389	-	-
541	1,039	-	-

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

21. COST OF SALES

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Raw materials	2,312,254	1,705,351	2,318,524	1,676,290
Salaries and wages	77,429	62,386	66,946	60,267
Depreciation on plant and machinery	53,695	50,718	48,201	45,178
Machinery repairs and maintenance	35,122	35,503	35,072	24,817
Fuel, water and electricity	15,941	14,396	15,319	14,270
Others	30,083	21,267	29,978	21,078
	2,524,524	1,889,621	2,514,040	1,841,900

22. OTHER INCOME

Gain on disposal of plant and equipment	1,376	114	890	99
Interest income	1,093	607	1,093	573
Miscellaneous income	831	2,318	364	783
Operating lease income	12,147	17,004	9,500	14,484
Write backs	13,960	-	13,960	-
Impairments recovered	7,941	22,565	7,593	19,887
	37,348	42,608	33,400	35,826

23. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs (note 26)	346,604	280,430	325,369	262,321
Depreciation	21,941	24,770	19,542	22,053
Auditors' remuneration	6,333	5,937	4,200	4,000
Directors' emoluments:				
As directors	6,994	7,413	6,994	7,413
As executives	66,156	38,211	66,156	38,211
Legal and professional fees	11,318	14,587	10,874	8,377
Amortisation of prepaid leases on land	265	265	265	265
Amortisation of intangible assets	8,874	8,742	8,718	8,586
Insurance	21,477	21,125	19,822	18,211
Foreign exchange loss	53,437	20,470	48,198	16,824
Office expenses	48,970	37,798	39,897	29,527
Consultancy fees	45,255	90,716	45,255	95,828
Computer costs	15,879	12,249	15,879	12,249
Travel	27,193	14,519	20,209	14,519
Maintenance, subscriptions and donations	5,611	13,669	5,611	9,551
Bank charges	8,449	9,996	7,995	9,908
Others	50,054	47,758	45,374	23,162
Impairment of other receivables	1,627	16,403	-	16,403
	746,437	665,058	690,358	597,408

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

24. SELLING AND DISTRIBUTION

	2011	2010	
Transport	87,092	69,205	
Advertising and promotion	207,172	208,800	
Allowance for bad debts	31,949	38,860	
Depot expenses	53,381	38,753	
Others	1,913	3,561	
	381,507	359,179	
		352,617	
		3,281	
		45,478	
		14,349	
		202,417	
		87,092	
		69,205	
		202,989	
		11,383	
		38,753	
		3,561	
		325,891	

25. FINANCE COSTS

Interest on loan and overdraft	13,552	7,028	13,552
Others	24,358	20,710	24,358
	37,910	27,738	37,910

26. STAFF COSTS

Salaries	271,712	211,700	250,477
Pension	1,609	1,435	1,609
Medical	6,101	9,079	6,101
Insurance	24,279	18,153	24,279
Staff meals and other supplies	34,454	29,924	34,454
Training and development	8,449	10,139	8,449
	346,604	280,430	325,369

27. PROFIT BEFORE TAX

The profit before tax is stated after charging: -	75,636	75,488	67,743
Depreciation	265	265	265
Amortisation of prepaid leases on land	8,874	8,742	8,718
Amortisation of intangible assets	6,994	7,413	6,994
As directors	66,156	38,211	66,156
As Executives	6,333	5,937	4,200
Auditors' remuneration	37,910	27,738	37,910
Interest expense	920	-	-
Loss on disposal	53,437	20,470	48,198
Foreign exchange loss	-	-	-
And after crediting: -	1,093	607	1,093
Interest income	-	114	890
Gain on disposal of property, plant and equipment	573	573	573

COMPANY

GROUP

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

28. BASIC AND DILUTED EARNINGS PER SHARE

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Net profit attributable to ordinary shareholders	129,002	91,417	170,707	148,620
Weighted average number of ordinary shares in '000'	23,727	23,727	23,727	23,727

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.

29. CASH AND CASH EQUIVALENTS

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

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Cash and cash equivalents	160,919	112,136	152,506	104,433
Bank overdraft	(47,681)	(24,887)	(47,681)	(24,887)
	113,238	87,249	104,825	79,546

30. OTHER FACILITIES GRANTED BY THE BANKERS

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Letters of credit	194,100	100,100	194,100	100,100
Guarantees given by bankers	20,000	20,000	20,000	20,000
	214,100	120,100	214,100	120,100

31. OPERATING LEASE COMMITMENTS

AS LESCEE:

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Within 1 year	124	124	124	124
Within 5 years	620	620	620	620
More than 5 years	3,720	3,844	3,720	3,844
	4,464	4,588	4,464	4,588

Lease commitments relate to lease rentals for LR No. 209/5792 and LR No. 209/4275.

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

31. OPERATING LEASE COMMITMENTS (Continued)

AS LESSOR:

The total future minimum rental receivables from third parties under non-cancellable operating leases is as follows:

	GROUP		COMPANY	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Within 1 year	8,107	8,519	8,107	8,519
Within 5 years	4,729	29,239	4,729	29,239
	12,836	37,758	12,836	37,758

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and overdrafts, commercial paper and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the company's loan, bank overdraft and commercial paper. The company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's exposure to the risks associated with changes in interest rates on bank overdraft is minimal as its borrowings are pegged to interest rates that were agreed in advance and do not change regularly. Interest on the company's loan is charged at the bank's base rate prevailing from time to time, currently at 9%. The interest on the commercial paper is at treasury bills interest rate plus 1.5%.

If there was a 2% increase/decrease in interest rates, the company's profit before tax would decrease /increase by KShs.758,200 (2010: KShs.545,000).

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subjected to credit verification procedures. The credit controller assesses the credit quality of each customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. Utilisation of credit limits is regularly monitored. The company has no significant concentrations of credit risk. Refer to note 10 for the maximum exposure to the Group and company. The amount that best represents the Group's maximum exposure to the credit risk as at 31 December 2011 is made up as follows:

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	2011	2010
	KShs'000	KShs'000
Bank balance	160,919	112,136
Account receivables	633,600	550,893
Amounts due from related parties	56,656	371,255
	<u>851,175</u>	<u>1,034,284</u>

Foreign currency risk

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

The balances in foreign currencies were as follows:

	GROUP		COMPANY	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Assets in foreign currencies				
Cash and bank	69,730	9,586	69,730	9,586
Amounts due from related companies	-	-	196,379	158,484
Foreign currency assets	<u>69,730</u>	<u>9,586</u>	<u>266,109</u>	<u>168,070</u>
Liabilities in foreign currencies payables	(202,260)	(74,207)	(202,260)	(74,207)
Net foreign currency (liability) / asset position	<u>(132,530)</u>	<u>(64,621)</u>	<u>63,849</u>	<u>93,863</u>

The Group purchases raw materials from other countries in the respective foreign currency. It is thus exposed to movements in foreign currency exchange rates. The following table demonstrates the sensitivity to a reasonably possible change in USD, with all other variables held constant, of the Group's and the Company's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

	GROUP		COMPANY	
USD	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
2011 Increase in US\$ by 4%	(2,554)	(1,788)	(2,554)	(1,788)
Decrease in US\$ by 4%	2,554	1,788	2,554	1,788
2010 Increase in US\$ by 4%	(3,755)	(2,629)	(3,755)	(2,629)
Decrease in US\$ by 4%	3,755	2,629	3,755	2,629

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk
Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Prudent liquidity risk management includes maintaining sufficient cash, Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

Sufficient cash: management monitors forming forecasts of the group's primary resource needs			
Year ended 31 December 2011	On demand KShs'000	Less than 3 months KShs'000	3 to 12 months KShs'000
			Total KShs'000
Bank overdraft	-	47,681	47,681
Interest bearing loan	-	96,551	184,616
Commercial paper	-	150,246	150,246
Trade and other payables	-	398,509	528,732
Provisions	-	13,992	13,992
Amounts due to related party	-	96,765	184,641
	-	803,744	306,164
	-		1,109,908
Year ended 31 December 2010			
Bank overdraft	-	24,887	24,887
Interest bearing loan	-	83,415	83,415
Commercial paper	-	113,403	113,403
Trade and other payables	-	284,273	379,083
Provisions	-	13,636	13,636
Amounts due to related party	-	49,982	339,728
Tax payable	-	37,629	37,629
	-	607,225	384,556
	-		991,781

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, interest rate, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.

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

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

Operational risk (continued)

- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.

33. CAPITAL RISK MANAGEMENT

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating, healthy capital ratios, safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital in order to support its business and maximise shareholder value. The Group's capital requirements are currently met through internally generated funds from operations. To maintain capital structure, the Group may adjust dividend payment to shareholders.

34. OPERATING SEGMENT INFORMATION

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

The paints segment manufactures and sells paints, decorating sundries, PVA emulsion and alkyd resins producer. The adhesives segment manufactures and sells adhesives. Transfer prices between the operating 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.

Operating Segments

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

Segment information is as presented below.

31 December 2011	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Assets and Liabilities				
Segment assets	2,565,675	57,885	(408,208)	2,215,352
Investment	12,000	-	(12,000)	-
Total assets	2,577,675	57,885	(420,208)	2,215,352
Segment liabilities	1,432,485	135,567	(405,120)	1,162,932

For The Year Ended 31 December 2011

34. OPERATING SEGMENT INFORMATION (Continued)

Other segment information	Paints KShs '000	Adhesives KShs '000	Elimination KShs '000	Total KShs '000
Capital expenditure - tangible fixed assets	166,743	-	-	166,743
Depreciation and amortisation	80,116	4,659	-	84,775
Revenue	3,852,033	1,536	-	3,853,569
Sales to external customers	72,830	56,188	(129,018)	-
Inter segment sales	37,348	-	-	37,348
Other income				
Results	3,962,211	57,724	(129,018)	3,890,917
Operating results	199,038	1,501	-	200,539
Income tax expense	(71,537)	-	-	(71,537)
Profit for the year	127,501	1,501	-	129,002
31 December 2010				
Assets and Liabilities				
Segment assets	2,285,178	57,394	(370,235)	1,972,337
Investment	12,000	-	(12,000)	-
Total assets	2,297,178	57,394	(382,235)	1,972,337
Segment liabilities	1,303,650	136,577	(370,235)	1,069,992
Other segment information				
Capital expenditure - tangible fixed assets	43,388	130	-	43,518
Depreciation and amortisation	79,656	4,839	-	84,495
Revenue	3,053,079	15,389	-	3,068,468
Sales to external customers	79,997	27,258	(107,255)	-
Inter segment sales	40,054	2,554	-	42,608
Other income	3,173,130	45,201	(107,255)	3,111,076
Results	176,535	(7,055)	-	169,480
Operating results	(78,063)	-	-	(78,063)
Income tax expense	98,472	(7,055)	-	91,417
Profit / (loss) for the year				

Notes To The Financial Statements (Continued)

For The Year Ended 31 December 2011

35. INCORPORATION

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

36. EVENTS AFTER THE REPORTING DATE

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

PROXY FORM

To: The Registrar

Custody & Registrar Services Limited

Bruce House, 6th Floor

Standard Street

PO Box 8484

00100 - NAIROBI

I/We _____ of _____

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

of _____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Fifty Fifth Annual General Meeting of the Company to be held on 21 June 2012 and at any adjournment thereof.

Signed/Sealed this _____ day of _____ 2012

Notes:

- ¹ In the case of a corporation the proxy must be under the Common Seal or the hand of an officer or attorney duly authorised in that behalf.
- ² To be valid, the proxy form should be completed and deposited with the Registrars not less than 48 hours before the time for holding the meeting or adjourned meeting.