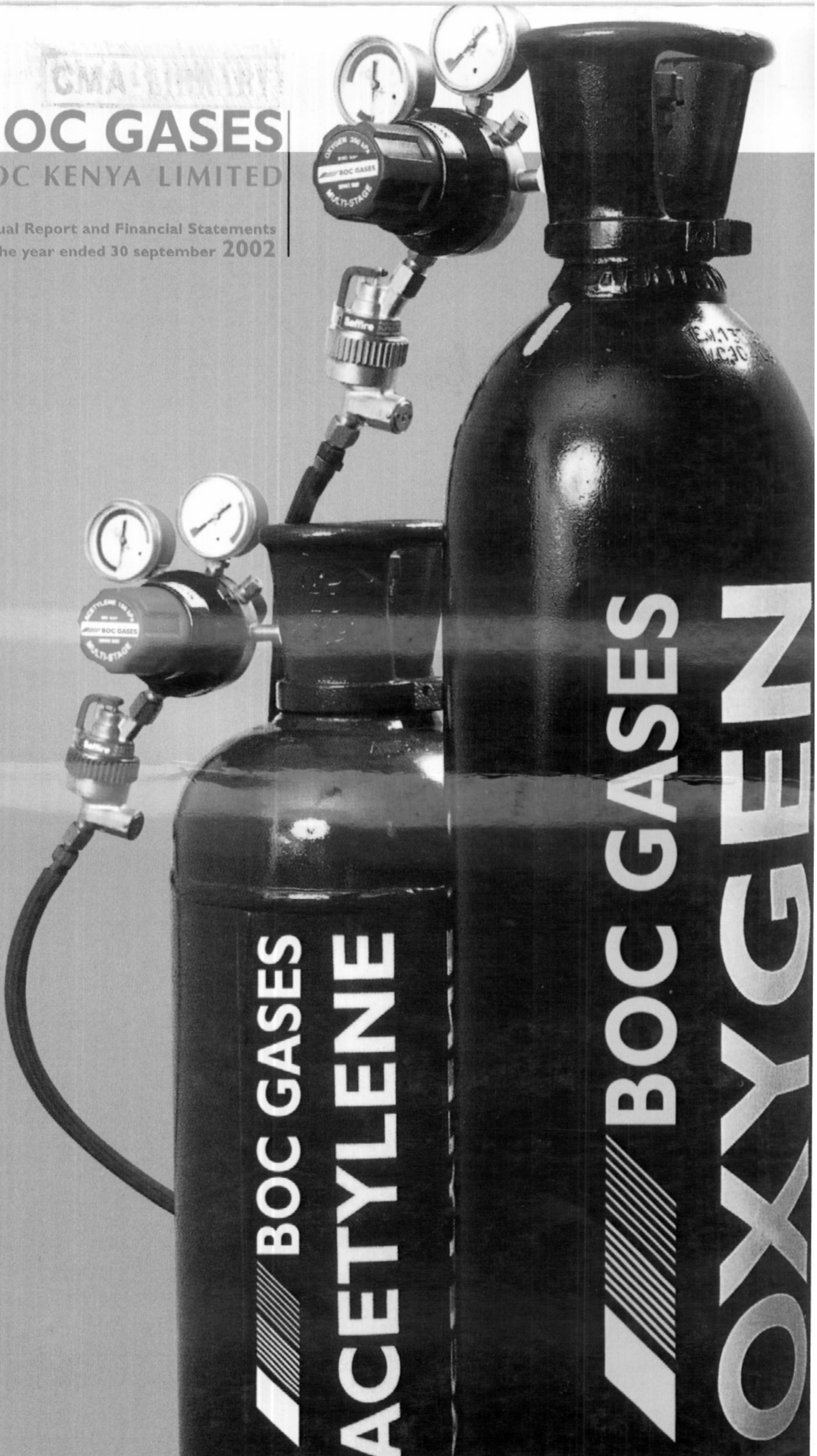
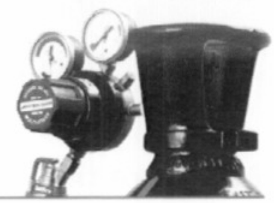
# BOC GASES

## BOC KENYA LIMITED

Annual Report and Financial Statements
for the year ended 30 september 2002





## Contents








The ultimate in industrial and domestic LPG

# Notice of the Annual General Meeting 2002

Notice is hereby given that the Sixty Second Annual General Meeting of BOC Kenya Limited will be held at Nairobi Serena Hotel, Ballroom, on Thursday, 6 February 2003 at 11:00 am for the following purposes:

**Ordinary business**

a) To consider the Audited Financial Statements for the year ended 30 September 2002 together with the Directors' and Auditors' Reports thereon.

b) To declare a dividend.

c) To elect directors.

d) To authorise the directors to fix the remuneration of the auditors.

e) To approve the remuneration of the directors.

f) Any other business, which may legally be transacted at an Annual General Meeting.

**Special business**

g) To consider, and if found fit, pass the following resolution as a Special Resolution:

'That the Articles of Association of the company be amended by insertion of the following new Articles immediately after Article 32, under the sub-title:

**Application of Central Depositories Act:**

32 (a)-" The provisions of the Central Depositories Act 2002 as amended or modified from time to time shall apply to the company to the extent that any securities of the company are in part or in whole immobilized or dematerialised or are required by the regulation or rules issued under the Central Depositories Act to be immobilised or dematerialized in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the Central Depositories Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles of Association, immoblisation and dematerialization shall be construed in the same way as they are construed in the Central Depositories Act"

32 (b)-"Where any securities of the company are forfeited pursuant to these Articles of Association after being immobilized or dematerialised, the company shall be entitled to transfer such securities to a securities account designated by the Directors for this purpose"

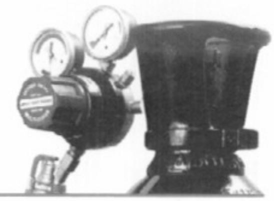
**BY ORDER OF THE BOARD**

JM Kariuki
Secretary



Kitui Road
PO Box 18010
NAIROBI

4 January 2003



## Notice of the Annual General Meeting 2002 (continued)

**Notes:**

a) Explanatory notes for the Central Depositories Act Special Resolution:
The special resolution proposed is to apply the Central Depositories Act 2002 to the company. The Act provides for electronic trading in securities listed on the Nairobi Stock Exchange whereby the share certificate is gradually phased out as the physical evidence of share ownership.

Initially the share certificates will be immobilized, meaning that they will still be the prima-facie evidence of ownership, but they will be deposited at the Central Depository. Subsequently, the shares will be dematerialised-certificates will cease to exist and instead, shares will only be represented by entries in the Securities Account of the shareholder with the Central Depository.

b) A member of the company entitled to vote at the meeting may appoint a proxy who need not be a member, to attend instead of him/her. A proxy shall not vote on a show of hands but may vote on a poll. A representative of a corporation may vote on a show of hands. Proxies must be lodged at the registered office of the company not later than 24 hours before the appointed time for the meeting.

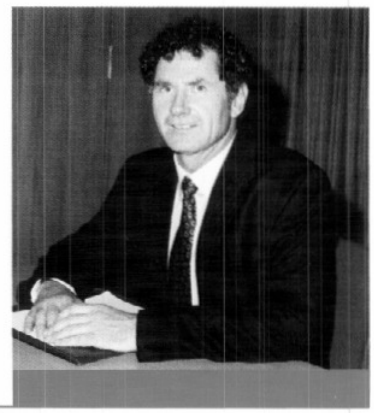



The loading point at our main factory along Kitui Road, Nairobi.

## Board of directors

**JOSEPH GILBERT KIBE - CHAIRMAN**

A BA graduate of London University through Makerere College, Joe Kibe, 67, years had a career spanning 17 years in the Kenya Government. For 12 years, he served as Permanent Secretary in the Ministries of: Commerce & Industry, Economic Planning, Agriculture & Animal Husbandry, Water Development, Lands & Settlement, Tourism & Wildlife. He holds directorship in ten companies and is a renowned businessman and farmer. He was appointed a non-executive director of BOC Kenya Limited in August 1991 and, in February 2000, was appointed Chairman of the Board of BOC Kenya Limited.



**STEPHEN C VILJOEN – MANAGING DIRECTOR**

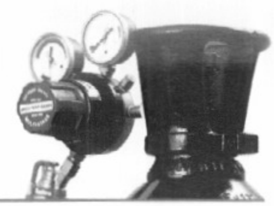
Stephen Viljoen, 45, has a Bachelor of Science degree in Chemical Engineering and an Honours degree in Economics. He has 18 years of service with the BOC Group and has gained valuable exposure to the range of value-adding processes, from production through to marketing and strategy formulation. He was appointed Managing Director in May 1999. During 2001, his responsibility was extended to BOC subsidiaries in Nigeria, Zambia and Malawi.

**ALFRED C JUMA**

A BA (Hons) graduate of London University through Makerere College, Alfred Juma, 64 was previously the Managing Director of Avon Rubber Company (Kenya) Limited. He has held the Chairmanships of the Federation of Kenya Employers, Kenya Ports Authority and Kenya Association of Manufacturers. He is currently the Managing Director of Energy Company Limited, an Energy Service Company (ESCO) and also the Vice Chairman, National Bank of Kenya Limited. He was appointed a non-executive director of BOC Kenya Limited in May 1994. Mr Juma also serves as Chairman of the Board of Trustees on the BOC Kenya Retirement Benefit Plans.

**NGUGI KIUNA**

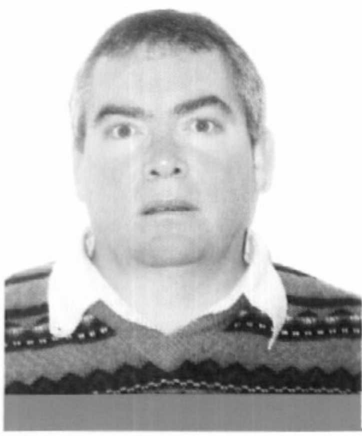
With a BSc (Hons) degree in Mechanical Engineering from Portsmouth Polytechnic, England, Ngugi Kiuna, 53, is the Managing Director of Johnson East Africa Limited. He was appointed a non-executive Director of BOC Kenya Limited in October 1993. Mr Kiuna is also currently the Chairman of the Audit Committee of the Board of BOC Kenya.



## Board of directors (continued)

**IVOR M MATTHEE**

Ivor Matthee was appointed to the Board of BOC Kenya Limited in September 1999. He is a Chartered Secretary, Chartered Accountant and holder of a Masters Degree in Business Administration. He joined the BOC Group in South Africa in January 1982 and has held various senior management positions. As at the year end, He was Company Secretary of the Afrox Group of Companies and was also responsible for some of BOC's African Operations outside of South Africa. He holds a number of directorships both in Africa and South Africa. Previously with Atlas Copco and Barclays Bank, he served his articles at Deloitte & Touche in South Africa. He retired from the Board on 11 November 2002



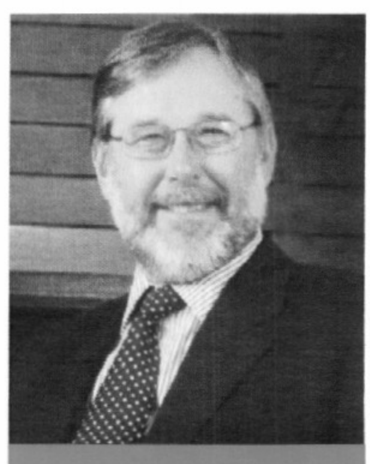


**MICHAEL GUY ROWELL**

Michael Rowell is a Chartered Secretary and also holds various management diplomas. He is presently completing his B.Proc Degree. He joined the BOC Group in South Africa in February 2000 as Company Secretarial Manager. He holds a number of directorships in our African Operations. He was previously employed at BTR Dunlop and the Alexander Forbes Group. Mr Rowell, who joined the BOC Kenya Board on 11 November 2002, is also a member of its Audit Committee.

**RICHARD LINDEN HOGBEN**

Rick Hogben joined Afrox in 1994 as Business Manager Healthcare Services and became General Manager Healthcare Services with responsibility for the non-hospital healthcare businesses. In January 1999, he became Managing Director of Afrox Healthcare, leading the takeover of Lifecare and the merger with PresMed to form Afrox Healthcare Limited. In 2000, he was appointed as an Executive Director of African Oxygen Limited and was a director and Vice Chairman of the Hospital Association of South Africa. He also holds a number of directorships in our African Operations.



In 2001, Rick was appointed Managing Director of African Oxygen Limited. Prior to joining Afrox, Rick spent 24 years with SA Breweries where he held several executive management positions in Finance and General Management, including as Chairman and Managing Director of Appletiser. Rick is a South African and was educated at St John's College, and, later, in the UK and USA. He graduated with a B.Comm. Degree from Wits University. He was appointed to the BOC Kenya Board on 11 November 2002.

# Directors' report

The directors submit their report, together with the audited financial statements, for the year ended 30 September 2002, which disclose the state of affairs of the company and the Group.

**Incorporation and registered office**

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is:
Kitui Road
P.O. Box 18010 Nairobi

**Principal activities**

The principal activities of the Group are manufacturing and sale of industrial and medical gases and welding products.

**Results and dividends**

The net profit for the year of Shs 105,491,000 (2001: Shs 75,050,000) has been added to retained earnings. During the year, an interim dividend of Shs 19,525,000 (2001: Shs 19,525,000) was paid. The directors recommend the approval of a final dividend of Shs 65,411,244 (2001: Shs 49,790,000), which includes a special dividend of Shs 0.6 per share.

**Financial risk management objectives and policies**

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the options available in the countries in which it operates to hedge against such risks. The company and its subsidiaries have policies in place to ensure that sales are made to customers with an appropriate credit history.

**Directors**

The directors who held office during the year and to the date of this report were:

| | |
|---|---|
| J G Kibe | - Chairman |
| S C Viljoen | - Managing Director |
| A C Juma | |
| N Kiuna | |
| I M Matthee | -Retired on 11 November 2002 |
| R L Hogben | -Appointed on 11 November 2002 |
| M G Rowell | -Appointed on 11 November 2002 |

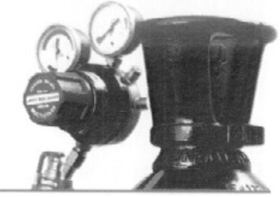
In accordance with Article 98 of the Company's Articles of Association, Messrs Hogben and Rowell will retire at the next Annual General Meeting and, being eligible, offer themselves for re-election. Mr J G Kibe retires by rotation and, being eligible, offers himself for re-election.

**Auditors**

The company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board
J M Kariuki
SECRETARY

11 November 2002



## Chairman's statement

### Trading Environment

#### Kenya

Once again, the trading environment in Kenya was extremely difficult. The weakness in Kenya's manufacturing and fabrication sectors meant that the demand for our products declined significantly. In the agricultural sector, especially the sugar sub-sector, companies have shown inconsistency in terms of operations and financial performance. Economic activity declined and some key customers closed down while others were put under receivership. There was no opportunity to increase volume or adjust prices in line with the increasing input costs and inflation.

Reduced capital expenditure and donor funding in the health sector did not improve in the year, leading to low demand of the health products, including medical equipment. The strong shilling continued to put pressure on the competitiveness of our high quality locally manufactured electrodes. Most enterprises in Kenya experienced poor cash flows and this made debt collection extremely difficult.

#### Tanzania

The company continued to pursue business opportunities in the northern Tanzania mining industry. The on-going maintenance requirements in the mines continued to provide sales opportunities. The mines in the North Mara region of Tanzania are now in production and the construction phase has been completed. The Tanzanian economy is expected to grow as it has opened up for more private investments in other non-mining sectors. In order to serve the market efficiently in north western Tanzania mining sector, a distribution centre at Geita will be opened in the coming year. With our current infrastructure in Tanzania, the company is in a position to take advantage of the ever-growing opportunities.


Across the borders;
BOC Kenya distribution team ready to release a truck loaded with gases destined for Tanzania

#### Uganda

The manufacturing sector did not grow significantly and hence the company's growth was restricted. However, sales of special electrodes to the sugar sub-sector were impressive and this trend is expected to continue in the coming year. The anticipated hydroelectric projects failed to materialise in the year. The potential in Uganda remains moderate in the short term.

### New Products

To complete the extensive range of welding products, we successfully launched flux-cored wires for specialised welding. Flux cored wires are at the forefront of global welding technology and several companies in Kenya have taken up this technology. A second pure Argon system was launched in the year to keep the local and export markets fully supplied.

### Growth opportunities-Handigas

The company continued to grow its presence in this market. Significant success on product availability was achieved through supply chain interventions. The market suffered from poor demand arising from low disposable income in Kenya. The distribution network was expanded into the Nairobi suburbs. BOC Kenya will continue to educate users on the benefits of Handigas as an environmentally friendly and more cost-effective energy source, compared to charcoal and electricity.

### Growth opportunity – Tanzania

The construction phase of the mines in North Mara region of Tanzania has been completed. The mines will be in demand of our package of products and services. The Oxygen compression facility in Mwanza that was completed at the end of last year continued to reduce costs of servicing this region. The growth in sales of Ammonia, a gaseous chemical supplied in cylinders for refrigeration, is encouraging.

### Safety and Environment

BOC Kenya regards the effective management and control of Safety, Health, Environment and Quality (SHEQ), as the cornerstone of responsible care of all stakeholders. Internal and external safety audits confirmed that BOC's commitment to safety is showing results. For the second year running, BOC Kenya has attained a five star rating by the National Occupation Safety Association (NOSA). On 16 June 2002, the company achieved a two-year accident-free period; the last lost workday case being reported on 17 June 2000. Over time, BOC Kenya's employees have become ever vigilant, reporting approximately 15 to 20 near-misses on a monthly basis, leading to many incidents being identified before they become accidents. Near-misses are thoroughly investigated by management, supervisors and the Safety, Health and Environment (SHE) representatives who have all undergone training on accident and incident investigations.

Bringing cooking gas to wananchi during the launch roadshow in a Nairobi surburb

**Distribution and Customer Service**

**(a) Customer service**

In our efforts to continuously improve on the level of customer service, a Customer Service Improvement programme was embarked on during the year. The programme ensures that customer complaints are recorded promptly, investigated and corrective action implemented to ensure that the complaints do not recur. Performance in this area is being monitored on an on-going basis.


**(b) Distribution**

With the growing demand for distribution to Mwanza, Arusha, Moshi and Kampala, our distribution fleet has been beefed up to ensure that product is available close to our customers.

**Human Resources**

The company continues to ensure that its resourcing, training and development programmes are designed to meet current and future needs of the business. In this regard, competency based learning on the various processes has been implemented and is on-going. During the year, the company, through the BOC Group, undertook an employee survey, which showed a high level of employee satisfaction and commitment. Specific action plans are being implemented to address areas that require improvements.

**Board of Directors**

Mr Ivor M Matthee who was a director at the year end retired from the Board on 11 November 2002 and, on the same date, messrs Richard L Hogben and Michael G Rowell were appointed. Mr Hogben is the Managing Director of African Oxygen Limited (Afrox) of South Africa while Mr Rowell is the Group Company Secretary, Afrox. The Board wishes to thank Mr Matthee for his valuable contribution to the company during his tenure. The Board also welcomes the new directors whose contribution is expected to positively support the company's growth agenda.

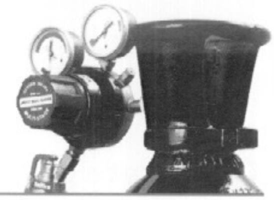
**Prospects**

The current low economic environment in Kenya is not expected to improve in the absence of major capital projects. However, the expanding markets for special gases, combined with the opportunities in Tanzania, Uganda, Ethiopia and the on-going productivity initiatives, are likely to sustain performance in 2003 at current levels.

**Appreciation**

My thanks again go to the staff and directors for their dedication and valuable contribution to the growth of the company, and to our suppliers and customers for their continued support.

J.G. Kibe
11 November 2002



## Corporate governance and comparative results

BOC Kenya Limited is fully committed to the principles of transparency, integrity and accountability. The directors are ultimately accountable to all stakeholders for ensuring that the company's business is conducted in accordance with high standards of corporate governance.

**Board of Directors**

The Board has a collective responsibility to provide effective corporate governance, which involves a set of relationships between management and the company, its Board, shareholders and other relevant stakeholders.

The Board meets at least four times a year, with additional meetings when necessary. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Managing Director. The Board nonetheless retains responsibility for establishing and maintaining the Group's overall internal control of financial, operational and compliance issues.

Five out of the six members of the Board, including the Chairman, are non-executive. Two of the five non-executive directors, messrs Hogben and Rowell are executives of African Oxygen Company Limited, based in South Africa.

In accordance with the Articles of Association, one third of the directors retire by rotation annually and, if they are eligible for re-election, their names are submitted for re-election at the Annual General Meeting. Non-executive directors retire at the age of 70.

All directors are considered on the basis of their experience, skills and level of contribution. The Board recognises the vital role that non-executive directors play in ensuring high governance standards and depends on their input for proper deliberation of matters. Approved level of delegated authorities ensures that the Board makes decisions on material matters.

Non-executive directors are encouraged to stay fully abreast of the company's business through site visits and regular meetings with senior management. There are no long-term service contracts relating to the position of any director.

**Audit committee**

The Board has constituted an Audit Committee which meets at least biannually with internal, Group and external auditors as well as management. Its responsibilities include review of financial information, in particular half year and annual financial statements, compliance with accounting standards, liaison with external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Audit Committee also reviews biannually the authority, resources and scope of internal audit. The committee comprises two non-executive directors.

**Retirement Benefit Plans**

The company operates two retirement funds, a Defined Benefits Scheme and a Staff Provident Fund. A non-executive director chairs the funds' Board of Trustees. The Board of Trustees meets at least biannually, with additional meetings when necessary. The schemes are governed in accordance with the BOC Group's guidelines for good practice and the provisions of the Retirement Benefit Act.

**Remuneration of executive director and senior management**

The Regional Director has a delegated responsibility of the Board to make recommendations to the BOC Group's Chief Executive for Industrial and Special Products, Africa, on the remuneration policies of the company and the terms and conditions of employment of the executive director and senior management, to maintain a competitive and equitable compensation policy.

Children from Undugu Society of Kenya girls Home in Kitengela help BOC Kenya Managing Director, Stephen Viljoen, plant a tree at the home to mark this year's Tumaini day

## Corporate governance and comparative results (continued)

**Risk management and internal controls**

The Board recognises that managing risks to ensure the optimum mix between risk and return is an integral part of achieving corporate goals. A risk management programme is in place to assist the Board to understand the business risk issues and key performance indicators affecting the ability of the Group to achieve its objectives.

The Board is satisfied that the risk management programme is adequate to effectively mitigate the significant risks faced by the company to an acceptable level.

The directors have also defined procedures and financial controls to ensure that the Group's system of internal controls provides reasonable assurance that the assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

The internal audit department performs various activities that result in an evaluation of the risk management, control and governance process. Significant business risks and weaknesses in the systems of operating and financial controls are highlighted and brought to the attention of the Audit Committee, senior management and external auditors. Areas that are accorded high risk profiles are given urgent attention by management.

**Employment equity**

The company is committed to the creation of an organisation that supports the equality of all employees and is committed to the elimination of any form of discrimination in the workplace.

**Social responsibility**

BOC Kenya strives to be a trusted corporate citizen and, as an integral part of society, to fulfil our responsibilities to the societies and communities in which we operate.

Over the past three years, Tumaini Day has become part of the Group's Community Involvement Process. This multi-faceted programme is organised at the departmental level where employees give their time on a voluntary basis to support disadvantaged children from orphanages and childcare organisations. This work culminates in an annual celebration, Tumaini Day - the "day of hope". The company has provided on-going support to the following Tumaini projects:

-Spirit of Faith Children's Home, Ruiru
-Undugu Society, Athi River
-Mukuru Promotional Centre, Nairobi
-Calvary Zion Children's Home, Mombasa
-Lake Victoria Children's Home, Kisumu

**Safety, health and environmental practices.**

Protection of staff, colleagues, stakeholders and the environment is paramount in all our activities. BOC Kenya is committed to being a leader in occupational safety and health, environmental protection and quality standards, requiring that every operation complies with the rules, regulations and procedures established as best operating practices of the Group.

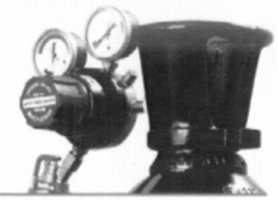
NOSA, an independent safety, health and environmental auditing body based in South Africa, regularly audits our operation's safety programme on a five star grading system. For the second year running, our operations have received a five star rating.

**Code of ethics**

The Group is committed to the highest standards of integrity, behaviour and ethics in dealing with all stakeholders. All directors and employees of the Group subscribe to a corporate culture, which requires them to maintain the highest personal ethical standards and to act in good faith and in the interests of the Group. This ensures that the Group's business practices are conducted in a manner that merits public trust and confidence.

All BOC employees are expected to avoid personal activities and financial interests, which could conflict with their responsibilities to the Group.

Kim Brightwell, Afrox's sales training specialist instructing BOC Kenya sales staff on the latest welding and cutting techniques. The training was held in November 2002



## Corporate governance and comparative results (continued)

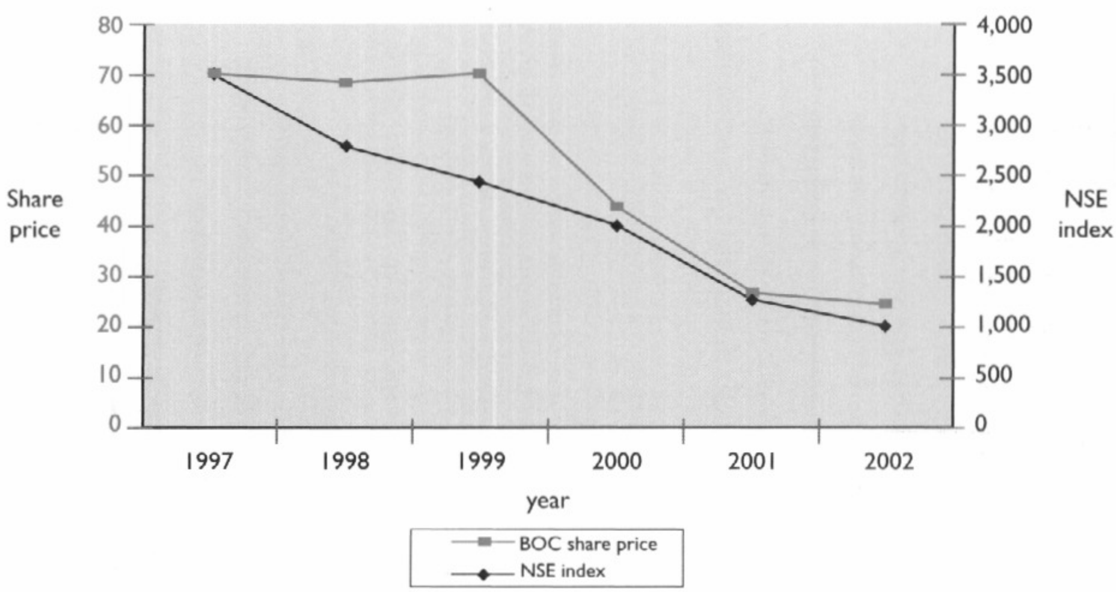
**Shareholders' profile for the year ended 30 september 2002**

**Ownership structure**

| | Number of shareholders | Number of Shares held | % of issued share capital |
|---|---|---|---|
| Foreign investors | 5 | 12,912,170 | 66.13 |
| Local individual investors | 544 | 2,372,105 | 12.15 |
| Local institutional investors | 106 | 4,232,164 | 21.67 |
| East African individual investors | 4 | 9,007 | 0.05 |
| | 659 | 19,525,446 | 100.00 |

| Ten largest shareholders | Number of Shares held | % of issued share capital |
|---|---|---|
| BOC Holdings | 12,765,578 | 65.38 |
| UAP Provincial Insurance Company Limited | 966,967 | 4.95 |
| Stanbic Nominees Kenya Limited 'A/C SCKPF' | 593,755 | 3.04 |
| Old Mutual Life Assurance Company Limited | 303,456 | 1.55 |
| Barclays (Kenya) Nominees Limited 'Account 1853' | 259,807 | 1.33 |
| Insurance Company of East Africa | 221,576 | 1.13 |
| Mr Mulchand Narshi Shah | 178,970 | 0.92 |
| Barclays Bank Nominees 'account 1256' | 159,900 | 0.82 |
| Planfam Investments Company Limited | 158,105 | 0.81 |
| Barclays (Kenya) Nominees Limited 'Account 1523' | 124,424 | 0.64 |
| | 15,732,538 | 80.57 |

**BOC share price compared to the Nairobi Stock Exchange (NSE) index**



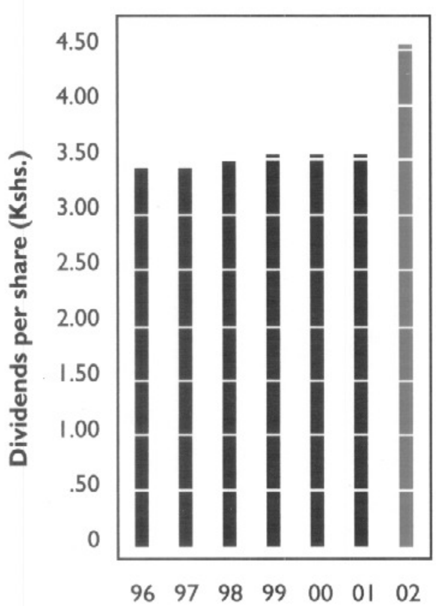
## Corporate governance and comparative results (continued)

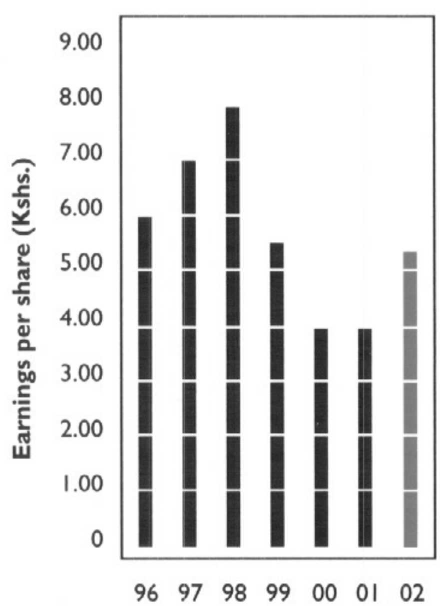
### Value distributed and retained

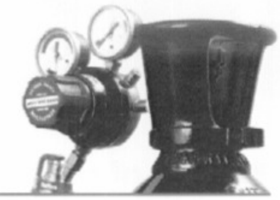
The Group created wealth amounting to Kshs 292,906 (2001: Kshs 241,001). The charts below show how the wealth created was distributed.

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| Turnover | 697,505 | 655,728 |
| Cost of materials, supplies and services | (404,599) | (414,727) |
| **Value added** | 292,906 | 241,001 |
| **Value distributed and retained** | | |
| To employees (excluding PAYE) | 91,307 | 81,629 |
| To shareholders | 84,936 | 69,315 |
| To Goverment as taxes | 96,108 | 84,322 |
| Reinvestment | 20,555 | 5,735 |
| | 292,906 | 241,001 |


### Performance profile





## Statement of directors' responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the company at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group and the company keep proper accounting records, which disclose with reasonable accuracy at any time 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 judgements and estimates, in conformity with International Accounting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and far view of the state of the financial affairs of the Group and the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

J G Kibe
Director

A C Juma
Director

11 November 2002


Our Responsibility:
BOC Kenya Manager Director, Stephen Viljoen, receives a tray of eggs from administrative assistant, Everlyn Awuor, as GM-Finance & Administration/ Company Secretary, John Kariuki, looks on. The eggs are from Ruiru - based Spirit of Faith Children's Home and Orphanage poultry unit sponsored by BOC

## Report of the auditors to the members of BOC Kenya Limited

We have audited the financial statements set out on pages 15 to 33. 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. The company's balance sheet on page 17 is in agreement with the books of account.

**Respective responsibilities of directors and auditors**

The directors are responsible for the preparation of financial statements as set out on page 13. Our responsibility is to express an independent opinion on the financial statements based on our audit.

**Basis of opinion**

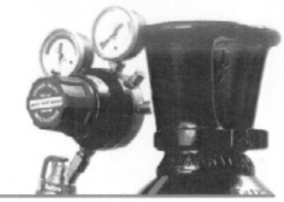
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

**Opinion**

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Group and the company at 30 September 2002 and of the profit and cash flows of the Group for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS
Certified Public Accountants
Nairobi

11 November 2002



# Consolidated profit and loss account

| | Notes | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| **Sales** | 1 | 697,505 | 655,728 |
| Cost of sales | | (301,535) | (318,627) |
| **Gross profit** | | 395,970 | 337,101 |
| Other operating income | | 3,861 | 15,193 |
| Distribution costs | | (75,118) | (61,572) |
| Administrative expenses | | (176,822) | (181,332) |
| Other operating expenses | | (11,356) | (12,613) |
| **Operating profit** | 2 | 136,535 | 96,777 |
| Finance income | 4 | 24,025 | 21,398 |
| Other investment income | 5 | 3,630 | - |
| Fair value loss on investments | 13 | (9,200) | - |
| **Profit before tax** | | 154,990 | 118,175 |
| Tax | 6 | (49,499) | (43,125) |
| **Net profit** | | 105,491 | 75,050 |
| **Earnings per share (Shs per share)** | | | |
| - basic | 7 | 5.40 | 3.84 |
| - diluted | 7 | 5.40 | 3.84 |
| **Dividends:** | | | |
| Interim dividends – paid in the year | 8 | 19,525 | 19,525 |
| Proposed final dividend for the year | 8 | 65,411 | 49,790 |
| | | 84,936 | 69,315 |

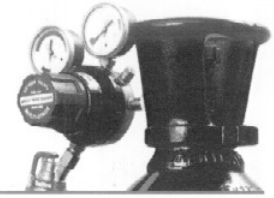
## Consolidated balance sheet

| | Notes | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| **CAPITAL EMPLOYED** | | | |
| Share capital | 9 | 97,627 | 97,627 |
| Share premium | 9 | 2,554 | 2,554 |
| Revaluation reserves | 10 | 125,616 | 138,924 |
| Retained earnings | | 715,665 | 697,511 |
| Proposed dividends | 8 | 65,411 | 49,790 |
| Shareholders' funds | | 1,006,873 | 986,406 |
| Non-current liabilities | | | |
| Deferred tax | 11 | 41,566 | 38,210 |
| Retirement benefit obligations | 20 | 2,086 | 4,949 |
| | | 43,652 | 43,159 |
| | | 1,050,525 | 1,029,565 |
| **REPRESENTED BY** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 (a) | 527,434 | 538,204 |
| Investments | 13 | 24,421 | 33,621 |
| Prepaid operating leases | 14 | 4,592 | - |
| | | 556,447 | 571,825 |
| Current assets | | | |
| Inventories | 15 | 164,105 | 151,057 |
| Receivables and prepayments | 16 | 257,128 | 243,234 |
| Cash and cash equivalents | 17 | 299,378 | 332,270 |
| | | 720,611 | 726,561 |
| Current liabilities | | | |
| Payables and accrued expenses | 18 | 226,533 | 268,821 |
| Net current assets | | 494,078 | 457,740 |
| | | 1,050,525 | 1,029,565 |

The financial statements on pages 15 to 33 were approved for issue by the Board of Directors on 11 November 2002 and signed on its behalf by:

J G Kibe
Director

A C Juma
Director



## Company balance sheet

| | Notes | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| **CAPITAL EMPLOYED** | | | |
| Share capital | 9 | 97,627 | 97,627 |
| Share premium | 9 | 2,554 | 2,554 |
| Revaluation reserves | 10 | 125,616 | 138,924 |
| Retained earnings | | 718,271 | 702,521 |
| Proposed dividends | 8 | 65,411 | 49,790 |
| Shareholders' funds | | 1,009,479 | 991,416 |
| Non-current liabilities | | | |
| Deferred tax | 11 | 40,091 | 37,915 |
| Retirement benefit obligations | 20 | 2,086 | 4,949 |
| | | 42,177 | 42,864 |
| | | 1,051,656 | 1,034,280 |
| **REPRESENTED BY** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12(b) | 503,633 | 519,046 |
| Investments | 13 | 24,481 | 33,681 |
| Prepaid operating leases | 14 | 4,592 | - |
| | | 532,706 | 552,727 |
| Current assets | | | |
| Inventories | 15 | 149,207 | 145,439 |
| Receivables and prepayments | 16 | 318,303 | 276,379 |
| Cash and cash equivalents | 17 | 277,096 | 322,934 |
| | | 744,606 | 744,752 |
| Current liabilities | | | |
| Payables and accrued expenses | 18 | 225,656 | 263,199 |
| Net current assets | | 518,950 | 481,553 |
| | | 1,051,656 | 1,034,280 |

The financial statements on pages 15 to 33 were approved for issue by the Board of Directors on 11 November 2002 and signed on its behalf by:

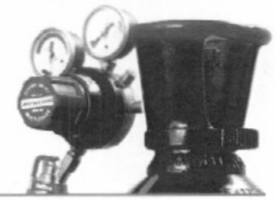
J G Kibe
Director

A C Juma
Director

## Consolidated statement of changes in equity

| | Notes | Share capital Shs'000 | Share premium Shs'000 | Revaluation reserves Shs'000 | Retained earnings Shs'000 | Proposed dividends Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|---|
| Year ended 30 September 2001 | | | | | | | |
| At start of year | | 97,627 | 2,554 | 140,871 | 689,829 | 49,790 | 980,671 |
| Net (losses)/gains not recognised in income statement | 10 | - | - | (1,947) | 1,947 | - | - |
| Net profit | | - | - | - | 75,050 | - | 75,050 |
| Dividends: | | | | | | | |
| - Final for 2000 (paid) | | - | - | - | | (49,790) | (49,790) |
| - Interim for 2001 (paid) | | - | - | - | (19,525) | - | (19,525) |
| - Proposed final for 2001 | | - | - | - | (49,790) | 49,790 | - |
| **At end of year** | | 97,627 | 2,554 | 138,924 | 697,511 | 49,790 | 986,406 |
| Year ended 30 September 2002 | | | | | | | |
| At start of year | | 97,627 | 2,554 | 138,924 | 697,511 | 49,790 | 986,406 |
| Net (losses)/gains not recognised in income statement | 10 | - | - | (1,941) | 1,941 | - | - |
| Assets revaluation | 10 | - | - | (11,367) | (4,342) | - | (15,709) |
| Net profit | | - | - | - | 105,491 | - | 105,491 |
| Dividends: | | | | | | | |
| - Final for 2001 (paid) | | - | - | - | - | (49,790) | (49,790) |
| - Interim for 2002 (paid) | 8 | - | - | - | (19,525) | - | (19,525) |
| - Proposed final for 2002 | 8 | - | - | - | (65,411) | 65,411 | - |
| **At end of year** | | 97,627 | 2,554 | 125,616 | 715,665 | 65,411 | 1,006,873 |

## Consolidated cash flow statement



| | Notes | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 23 | 95,703 | 118,810 |
| Interest received | | 15,500 | 18,527 |
| Interest paid | | (51) | (421) |
| Dividends received | | 3,630 | - |
| Tax paid | | (47,956) | (49,354) |
| Net cash generated from operating activities | | 66,826 | 87,562 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 12 (a) | (37,132) | (55,723) |
| Proceeds from disposal of property, plant and equipment | | 305 | 8,799 |
| Net cash used in investing activities | | (36,827) | (46,924) |
| **Financing activities** | | | |
| Dividends paid | | (71,843) | (19,525) |
| Net cash used in financing activities | | (71,843) | (19,525) |
| **Decrease in cash and cash equivalents** | | (41,844) | 21,113 |
| **Movement in cash and cash equivalents** | | | |
| At start of year | 17 | 332,270 | 307,865 |
| Increase / (decrease) | | (41,844) | 21,113 |
| Effects of exchange rate changes on cash and cash equivalents | | 8,952 | 3,292 |
| **At end of year** | 17 | 299,378 | 332,270 |

## Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

**(a) Basis of preparation**

The consolidated financial statements are prepared in accordance and comply with the International Accounting Standards (IAS). The financial statements are prepared in Kenya Shillings (Shs) and under the historical cost convention as modified by the revaluation of land and buildings.

**(b) Consolidation**

Subsidiary undertakings in which the company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. The activities of the Group's special purpose entity have been consolidated. All inter-company transactions, balances and unrealised profits and losses on transactions between Group companies have been eliminated.

**(c) Revenue recognition**

Sales are recognised upon delivery of products and performance of services, and are stated net of VAT and discounts.
Interest income is recognised as it accrues, unless collectibility is in doubt.

**(d) Property, plant and equipment**

All property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment are stated at historical cost less depreciation.
Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and the depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line basis to write down the cost of each asset, or the revalued amounts, to their residual values over their estimated useful life at the following annual rates:

| | |
|---|---|
| Freehold buildings | 50 years |
| Other buildings | 50 years |
| Plant and machinery | 5 – 20years |
| Cylinders | 25 years |
| Motor vehicles | 5 – 10 years |
| Furniture and fixtures | 4 – 10 years |

Freehold land is not depreciated as it is deemed to have an indefinite life.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

## Accounting policies (continued)

**(e) Investments**

**Subsidiaries**

Investments in subsidiaries are carried at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

**Other investments**

The Group adopted IAS 39 on 1 October 2001 and classified its other investments, comprising shares in a listed company, as available-for-sale. These investments are to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates. These investments are included in non-current assets unless the directors have the express intention of holding investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

All purchases and sales of available-for-sale investments are recognised on the trade date, which is the date the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair values and unrealised gains and losses arising from changes in fair value are included in the profit and loss account in the year in which they arise.

**(f) Prepaid operating leases**

The carrying value of prepaid operating leases represents the un-amortised historical cost of leasehold land. Amortisation is done on the straight-line basis over the remaining periods of the leases.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other related direct costs and production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**(h) Translation of foreign currencies**

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

Income statements of foreign subsidiaries are translated in the Group's reporting currency at average exchange rates for the year and the balance sheets are translated at the rates ruling at the end of the year.

**(i) Trade receivables**

Trade receivables are carried at invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

## Accounting policies (continued)

### (j) Employee entitlements

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

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

### (k) Retirement benefit obligations

The Group operates a defined contribution retirement benefit scheme and a defined benefit scheme. The assets of both schemes are held in separate trustee administered funds that are funded by contributions from both the company and employees, taking account of the recommendations of independent qualified actuaries.

The company's contributions to the defined contribution retirement benefit scheme are charged to the profit and loss account in the year to which they relate.

For the defined benefit scheme, the pension costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses are recognised over the average remaining service lives of employees.

### (l) Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

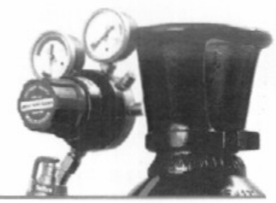
Deferred tax assets are recognised only to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilised.

### (m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

### (n) Comparatives

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



## Notes forming part of the financial statements

| | | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| 1 | **Sales** | | |
| | Sales of goods | 608,672 | 551,103 |
| | Revenue from services | 88,833 | 104,625 |
| | | 697,505 | 655,728 |
| 2 | **Operating profit** | | |
| | The following items have been charged in arriving at operating profit: | | |
| | Staff costs (Note 3) | 119,307 | 105,629 |
| | Auditors' remuneration | 1,875 | 1,500 |
| 3 | **Staff costs** | | |
| | The following items are included within staff costs: | | |
| | Retirement benefits costs: | | |
| | - Defined contribution scheme | 1,330 | 1, 075 |
| | - Defined benefit scheme (Note 20) | 2,989 | 3,846 |
| | The number of persons employed by the company at the end of the year was: | 164 | 166 |
| 4 | **Finance income** | | |
| | Interest income | 15,500 | 18,527 |
| | Net foreign exchange gains | 8,576 | 3,292 |
| | Interest expense on bank borrowings | (51) | (421) |
| | Net finance income | 24,025 | 21,398 |
| 5 | **Other investment income** | | |
| | Dividend income | 3,630 | - |

This represents an interim dividend from investment in the shares of a company that is quoted on the Nairobi Stock Exchange.

| | | | |
|---|---|---|---|
| 6 | **Tax** | | |
| | Current tax | 46,143 | 40,549 |
| | Deferred tax (Note 11) | 3,356 | 2,576 |
| | | 49,499 | 43,125 |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

6 **Tax (continued)**

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| Profit before tax | 154,990 | 118,175 |
| Tax calculated at a tax rate of 30% (2001 - 30%) | 46,497 | 35,453 |
| Tax effect of: | | |
| Income not subject to tax | (676) | (563) |
| Expenses not deductible for tax purposes: | | |
| Diminution in value of investments | 2,760 | 4,645 |
| Others | 918 | 3,590 |
| Tax charge | 49,499 | 43,125 |

7 **Earnings per share**

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 105,491,000 (2001: Shs 75,050,000) and on the weighted average number of ordinary shares outstanding during the period.

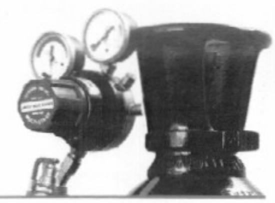
| | 2002 Shs '000 | 2001 Shs '000 |
|---|---|---|
| Net profit attributable to shareholders | 105,491 | 75,050 |
| Adjusted weighted average number of ordinary Shares in issue | 19,525 | 19,525 |
| Basic earnings per share (Shs) | 5.40 | 3.84 |

There were no potentially dilutive shares outstanding at both year-ends.

8 **Dividends per share**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. At the annual general meeting to be held on 6 February 2003, a final dividend in respect of the year ended 30 September 2002 of Shs 2.75 per share amounting to a total of Shs 53,694,976 and a special dividend of Shs 0.6 per share amounting to Shs 11,715,268 are to be proposed. During the year, an interim dividend of Shs 1.00 per share, amounting to a total of Shs 19,525,446 was paid. The total dividend for the year is therefore Shs 4.35 per share (2001: Shs 3.55), amounting to a total of Shs 84,935,690 (2001: Shs 69,315,333).

Payment of dividends is subject to withholding tax at a rate of between 5 and 10%, depending on the residence of the respective shareholders.





### 9 Share capital

| | Number of shares (Thousands) | Ordinary shares Shs'000 | Share premium Shs'000 |
|---|---|---|---|
| Balance at 1 October 2001 and at 30 September 2002 | 19,525 | 97,627 | 2,554 |

The total authorised number of ordinary shares is 19,525,446 with a par value of Shs 5 per share. All issued shares are fully paid.

### 10 Revaluation reserves (company and Group)

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| Buildings | 125,616 | 138,924 |
| The movements in reserves was as follows: | | |
| Buildings | | |
| At start of year | 138,924 | 140,871 |
| Revaluation of buildings (note 12) | (11,367) | - |
| | 127,557 | 140,871 |
| Transfer of excess depreciation | (2,773) | (2,781) |
| Deferred tax on transfer (Note 10) | 832 | 834 |
| Net loss not recognised in income statement | (1,941) | (1,947) |
| At end of year | 125,616 | 138,924 |

The revaluation reserves are non-distributable.

## Notes forming part of the financial statements (continued)

**11 Deferred tax**

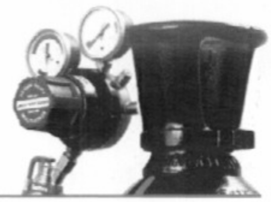
Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2001: 30%). The movement on the deferred tax account is as follows:

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| At start of year | 37,915 | 35,634 | 38,210 | 35,634 |
| Income statement charge (Note 6) | 2,176 | 2,281 | 3,356 | 2,576 |
| At end of year | 40,091 | 37,915 | 41,566 | 38,210 |

Deferred tax assets and liabilities, deferred tax charge/(credit) in the profit and loss account, and deferred tax charge/(credit) in equity are attributable to the following items:

| **Group** | 1.10.2001 Shs'000 | Charged/ (credited) to P/L Shs'000 | 30.09.2002 Shs'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Accelerated tax depreciation | 39,024 | 8,438 | 47,462 |
| Unrealised exchange gains | 195 | (195) | - |
| | 39,219 | 8,243 | 47,462 |
| **Deferred tax assets** | | | |
| Provisions | (256) | (2,820) | (3,076) |
| Tax losses carried forward | (753) | (2,067) | (2,820) |
| | (1,009) | (4,887) | (5,896) |
| **Net deferred tax liability** | 38,210 | 3,356 | 41,566 |

Deferred tax of Shs 831,900 (2001: Shs 834,422) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.





## 11 Deferred tax (continued)

**Company**

| | 1.10.2001 Shs'000 | Charged/ (credited) to P/L Shs'000 | 30.09.2002 Shs'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Accelerated tax depreciation | 37,976 | (5,191) | 43,167 |
| Unrealised exchange gains | 195 | (195) | - |
| | 38,171 | 4,996 | 43,167 |
| **Deferred tax assets** | | | |
| Provisions | (256) | (2,820) | (3,076) |
| **Net deferred tax liability** | 37,915 | 2,176 | 40,091 |

## 12 Property, plant and equipment

**(a) Group**

| | Land & buildings Shs'000 | Plant & machinery & motor vehicles Shs'000 | Cylinders Shs'000 | Furniture & fittings Shs'000 | Capital work in progress Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At start of year | 216,931 | 327,554 | 201,097 | 53,156 | 23,459 | 822,197 |
| Additions | 3,519 | 6,289 | 6,607 | 753 | 19,964 | 37,132 |
| Disposals | - | (1,900) | - | - | - | (1,900) |
| Transfers | 21,913 | 4,397 | 15,973 | - | (42,283) | - |
| Revaluation | (24,000) | - | - | - | - | (24,000) |
| Transfer to prepaid expenses (Note 14) | (4,592) | - | - | - | - | (4,592) |
| At end of year | 213,771 | 336,340 | 223,677 | 53,909 | 1,140 | 828,837 |
| **Depreciation** | | | | | | |
| At start of year | (8,143) | (177,366) | (50,690) | (47,794) | - | (283,993) |
| Charge for the year | (4,632) | (18,231) | (7,442) | (1,638) | - | (31,943) |
| On disposals | - | 1,900 | - | - | - | 1,900 |
| Revaluation | 12,633 | - | - | - | - | 12,633 |
| At end of year | (142) | (193,697) | (58,132) | (49,432) | - | (301,403) |
| **Net book amount** | | | | | | |
| At 30 September 2002 | 213,629 | 142,643 | 165,545 | 4,477 | 1,140 | 527,434 |
| At 30 September 2001 | 208,788 | 150,188 | 150,407 | 5,362 | 23,459 | 538,204 |

## Notes forming part of the financial statements (continued)

**12 Property, plant and equipment (continued)**

**(b) Company**

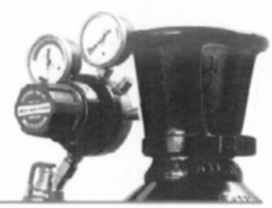
| | Land & buildings Shs'000 | Plant & machinery & motor vehicles Shs'000 | Cylinders Shs'000 | Furniture & fittings Shs'000 | Capital work in progress Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At start of year | 215,438 | 319,328 | 192,845 | 52,405 | 22,316 | 802,332 |
| Additions | 2,748 | 2,636 | 5,331 | 669 | 19,964 | 31,348 |
| Disposals | - | (1,900) | - | - | - | (1,900) |
| Transfers | 21,913 | 3,254 | 15,973 | - | (41,140) | - |
| Revaluation | (24,000) | - | - | - | - | (24,000) |
| Transfer to prepaid expenses (Note 14) | (4,592) | - | - | - | - | (4,592) |
| **At end of year** | 211,507 | 323,318 | 214,149 | 53,074 | 1,140 | 803,188 |
| **Depreciation** | | | | | | |
| At start of year | (8,143) | (177,293) | (50,217) | (47,633) | - | (283,286) |
| Charge for the year | (4,490) | (17,684) | (7,112) | (1,516) | - | (30,802) |
| On disposals | - | 1,900 | - | - | - | 1,900 |
| Revaluation | 12,633 | - | - | - | - | 12,633 |
| At end of year | - | (193,077) | (57,329) | (49,149) | - | (299,555) |
| **Net book amount** | | | | | | |
| At 30 September 2002 | 211,507 | 130,241 | 156,820 | 3,925 | 1,140 | 503,633 |
| At 30 September 2001 | 207,295 | 142,035 | 142,628 | 4,772 | 22,316 | 519,046 |

In the opinion of the directors, there is no impairment of property, plant and equipment.

Buildings were revalued during the year, by Kenya Valuers & Estate Agents, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant deficit net of deferred tax was taken to revaluation and other reserves in shareholders' equity (Note 10).

If the buildings were stated on the historical cost basis, the amounts would be as follows:

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| Cost | 93,543 | 68,092 |
| Accumulated depreciation | (142) | (2,527) |
| Net book amount | 93,401 | 65,565 |





### 13 Investments

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Investments in subsidiaries | 60 | 60 | - | - |
| Other investments | 24,421 | 33,621 | 24,421 | 33,621 |
| | 24,481 | 33,681 | 24,421 | 33,621 |

**Investment in subsidiaries**

| | Percentage shareholding | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|---|
| East African Oxygen Limited | 100% | - | - |
| BOC Tanzania Limited | 100% | 10 | 10 |
| BOC Uganda Limited | 100% | 50 | 50 |
| | | 60 | 60 |

East African Oxygen Limited is incorporated in Kenya and is a dormant company. BOC Tanzania Limited and BOC Uganda Limited are incorporated in Tanzania and Uganda, respectively.

**Other investments**

This represents the Group's investment in the shares of a quoted company with a historical cost of Shs 33,621,000. The fair value of these investments at the balance sheet date resulted in a fair value loss of Shs 9,200,000.

### 14 Prepaid operating leases

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Leases expiring beyond five years | 4,592 | - | 4,592 | - |

Leasehold land at a cost of Ksh.4,592,120 which was previously classified under land & buildings in property, plant & equipment has been reclassified as a prepaid operating lease, to be amortized over the remaining life of the leases in line with International Accounting Standard 17. The leasehold land was previously revalued and the revaluation surpluses dealt with under revaluation reserves.

### 15 Inventories

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Raw materials | 13,926 | 7,226 | 13,926 | 7,226 |
| Saleable stock | 56,719 | 79,432 | 71,573 | 85,050 |
| Plant spares | 60,466 | 43,105 | 60,466 | 43,105 |
| Goods in transit | 15,269 | 14,608 | 15,269 | 14,608 |
| Work in progress | 2,827 | 1,068 | 2,871 | 1,068 |
| | 149,207 | 145,439 | 164,105 | 151,057 |

## Notes forming part of the financial statements (continued)

### 16 Receivables and prepayments

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Trade receivables | 213,597 | 180,862 | 252,949 | 200,159 |
| Prepayments | 890 | 24,831 | 1,089 | 36,999 |
| Receivables from related companies (Note 25) | 101,930 | 65,055 | - | - |
| Tax recoverable | 1,886 | 5,631 | 3,090 | 6,076 |
| | 318,303 | 276,379 | 257,128 | 243,234 |

### 17 Cash and cash equivalents

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Cash at bank and in hand | (266) | 43,785 | 22,233 | 53,121 |
| Short term bank deposits | 277,362 | 279,149 | 277,145 | 279,149 |
| | 277,096 | 322,934 | 299,378 | 332,270 |

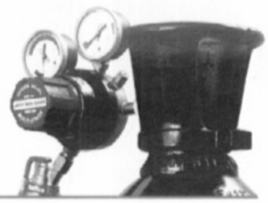
The weighted average effective interest rate on short-term bank deposits at year-end was 7.7 % (2001: 6.2 %).

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Cash and bank balances as above | 277,362 | 322,934 | 299,644 | 332,270 |
| Bank overdrafts (Note 19) | (266) | - | (266) | - |
| | 277,096 | 322,934 | 299,378 | 332,270 |

### 18 Payables and accrued expenses

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 | 2002 Shs'000 | 2001 Shs'000 |
| Trade payables | 23,949 | 31,860 | 25,568 | 34,664 |
| Amounts due to related companies (Note 25) | 40,192 | 90,787 | 40,192 | 90,787 |
| Leave accrual | 7,225 | 4,829 | 7,225 | 4,829 |
| General provisions | 31,036 | 13,134 | 31,036 | 13,134 |
| Unrealised interest on trade receivables | 18,810 | 22,491 | 18,810 | 22,491 |
| Cylinder deposits | 93,071 | 87,021 | 93,817 | 87,235 |
| Other payables | 11,373 | 13,077 | 9,885 | 15,681 |
| | 225,656 | 263,199 | 226,533 | 268,821 |





### 19 Borrowings

| | Company and Group | |
|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 |
| The borrowings are made up as follows: | | |
| **Current** | | |
| Bank overdraft | (266) | - |
| Weighted average effective interest rates at the year end were: | | |
| bank overdrafts (%) | 17 | - |

### 20 Retirement benefit obligations

The amounts recognised in the balance sheet are determined as follows:

| | Company and Group | |
|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 |
| Present value of funded obligations | 128,996 | 113,123 |
| Fair value of scheme assets | 129,682 | 113,879 |
| Present value of over funded obligations | (686) | (756) |
| Unrecognised actuarial gains | 2,772 | 5,705 |
| Liability in the balance sheet | 2,086 | 4,949 |

The amounts recognised in the profit and loss account for the year are as follows:

| | Company and Group | |
|---|---|---|
| | 2002 Shs'000 | 2001 Shs'000 |
| Current service cost | 3,203 | 3,794 |
| Interest cost | 11,280 | 10,398 |
| Expected return on plan assets | (11,494) | (10,346) |
| Net charge for the year included in staff costs | 2,989 | 3,846 |
| Contributions paid | (5,852) | (5,115) |
| Movement in the liability recognised in the balance sheet | (2,863) | (1,269) |
| The principal actuarial assumptions used were as follows: | | |
| - discount rate | 10.0 % | 10.0 % |
| - expected return on scheme assets | 10.0 % | 10.0 % |
| - future salary increases | 8.0 % | 8.0 % |
| - future pension increases | 0 % | 0 % |

### 21 Contingent liabilities

At 30 September 2002 the company had given guarantees amounting to Shs 9,049,699 (2001: Shs 10,411,000) on behalf of third parties. The company is party to some legal proceedings but the directors believe that such litigation will be disposed of without material effect on the net asset position as shown in these statements.

### 22 Capital commitments

At 30 September 2002 the company had outstanding capital commitments amounting to Shs 4,880,000 (2001: nil).

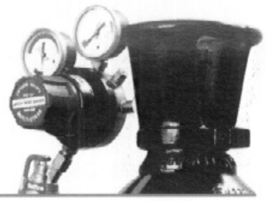
### 23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

| | Group | |
|---|---|---|
| | 2002<br>Shs'000 | 2001<br>Shs'000 |
| Profit before tax | 154,990 | 118,175 |
| Adjustments for: | | |
| Depreciation (Note 12 (a) | 31,943 | 37,782 |
| Profit on sale of property, plant and equipment | (305) | (8,429) |
| Fair value loss on investments | 9,200 | - |
| Unrealised foreign exchange gain | (8,951) | (3,292) |
| Interest income (Note 4) | (15,500) | (18,527) |
| Interest expense (Note 4) | 51 | 421 |
| Dividend income ( Note 5) | (3,630) | - |
| Changes in working capital: | | |
| - receivables and prepayments | (13,896) | (28,767) |
| - inventories | (13,048) | 7,813 |
| - Payables and accrued expenses | (42,288) | 15,968 |
| - provision for liabilities and charges | (2,863) | (2,334) |
| Cash generated from operations | 95,703 | 118,810 |

### 24 Business segments

The major part of the business of the Group falls under the category of production and sale of gases and welding products, with results from other sources comprising less than 4% of the total results of the Group.



## Notes forming part of the financial statements (continued)

**25 Related party transactions**

The ultimate parent of the BOC Kenya Group is BOC Group PLC incorporated in the United Kingdom. There are other companies which are related to BOC Kenya Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| **i) Sale of goods and services** | | |
| Other related parties | 53,047 | 38,587 |
| **ii) Purchase of goods and services** | | |
| BOC Group plc | 66,435 | 21,104 |
| Other related parties | 64,459 | 53,460 |
| | 130,894 | 74,564 |



Sales and purchases to/from related parties were made at terms and conditions similar to those offered to major customers.

**iii) Outstanding balances arising from sale and purchase of goods/services**

| | 2002 Shs'000 | 2001 Shs'000 |
|---|---|---|
| Receivables from other related parties | 101,930 | 65,055 |
| Payables to BOC Group plc | 7,123 | 69,107 |
| Payables to other related companies | 33,069 | 21,680 |
| | 40,192 | 90,787 |
| **iv) Directors' remuneration** | | |
| - fees | 1,113 | 1,061 |
| - management | 12,936 | 13,722 |

# Products and services

## Healthcare

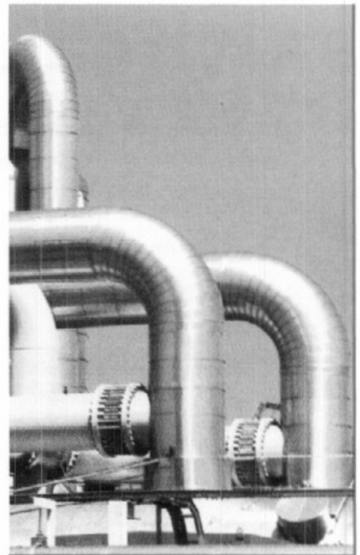
**Medical Gases**
Compressed Medical Oxygen
Liquid Medical Oxygen
Nitrous Oxide
Entonox
Medical Carbon Dioxide
Medical Air

**Medical Equipment**
Anaesthetic Machines
Oxygen Monitors
Cardiac Monitors
Oxygen Therapy
Resuscitation Units
Ventilators (Anaesthetic and ICU)
Incubators & Oxygen Tents
Madical Gas Pipelines
Electric & Manual Suction - pumps
Ambu Bags
Respirometers
Halothane & Ethane Vaporisers
Infusion Pumps & Syringe - extension lines
IV Venflon Cannula

## Welding Products

**Gas Welding**
Regulators
Cutting Torches
Welding Torches
Gas Control Equipment
Safety Equipment & Protective Clothing
Gas Welding Rods & Fluxes
Low Temperature Brazing - alloys
Profile Cutters
Gas Equipment Repairs

**Electric Welding**
Manual Metal Arc Machines
Mig Semi-automatic Machines
Tig-welding Machines & Accesories
Plasma Cutting Equipment
General Purpose Mild Steel - electrodes
Vitemax
Nuweld
Superweld
Special Electrodes
Hardfacing Electrodes
Mig Wire
Arc Equipment Repairs



## Industrial Gases

Liquid Oxygen
Compressed Oxygen
Compressed Nitrogen
Liquid Nitrogen
Whitespot Nitrogen
Argon
Argon Mixtures
Argonox
Argoshield
Anhydrous Ammonia
Lamp Gas
Pestigas
Compressed Air
Dissolved Acetylene
Freon Refrigerants
Helium/Balloon Gas
Sulphur Dioxide
Hydrogen
Special Gases Mixtures
Research Gases
Cyrospeed(Liquid Nitrogen Application + Dewar Sales)
Electronic Gases
Handigas(Domestic)Lpg
Handigas(Industrial)Lpg
Technical Advice On Gas Applications
Modified Atmospheres
Industrial Pipelines

## Repairs/Services For:

After sales services offered for all the above equipments, medical pipelines, Ohmeda centre-for vaporisers, training in Gas and Arc welding, customer site safety surveys