Annual Report and Financial Statements

for the year ended 30 September, 2003

BOC GASES
BOC KENYA LIMITED

Contents

Notice of Meeting

Notice is hereby given that the Sixty Third Annual General Meeting of BOC Kenya Limited will be held at Nairobi Serena Hotel, Ballroom, on Thursday, 5 February, 2004 at 11.00 a.m. for the following purposes:

Ordinary business

(a) To consider the Audited Financial Statements for the year ended 30 September 2003 together with the Directors' and Auditors' Reports therein.

(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.

BY ORDER OF THE BOARD

Ms. J.N. Ongegu
(Secretary)

Kitui Road,
P.O. Box 18010 00500,
NAIROBI

3 January, 2004

Our Board of Directors

BOARD OF DIRECTORS: *(Standing L-R)* **Michael G. Rowell*, Ngugi Kiuna, Alfred C. Juma, Rob D. Clarke*** *(Sitting L-R)* **John M. Kariuki** *(Managing)*, **Joseph G. Kibe** *(Chairman)* and **Stephen C. Viljoen***

NOT IN THE GROUP PICTURE:

Rick Hogben*
(Director)

Alan Jones*
(Director)

* *South African*

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 30 September, 2003 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
PO Box 18010 00500
NAIROBI

Principal Activities

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

Results and Dividend

The net profit for the year of Shs 152,619,000 (2002: Shs 105,491,100) has been added to retained earnings. During the year an interim dividend of Shs 19,525,000 (2002: Shs 19,525,000) was paid. The directors recommend the approval of a final dividend of Shs 65,410,244 (2002: Shs 65,410,244), 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 company'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 Kenya to hedge against such risks.

The company has 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)*
J. M. Kariuki	*(Managing Director) -Appointed director on 3 March, 2003 and Managing Director on 2 October, 2003*
A. C. Juma	
N. Kiuna	
M. Rowell	
R. D. Clarke	*Appointed on 2 October, 2003*
A. Jones	*Appointed on 2 October, 2003*
R. L. Hogben	*Retired on 2 October, 2003*
S. C. Viljoen	*Retired on 2 October, 2003*

In accordance with article 98 of the company's Articles of Association, R. D. Clarke and A. Jones will retire at the next Annual General Meeting and, being eligible, offer themselves for re-election. N. Kiuna retires by rotation and, being eligible, offers himself for re-election.

Auditors

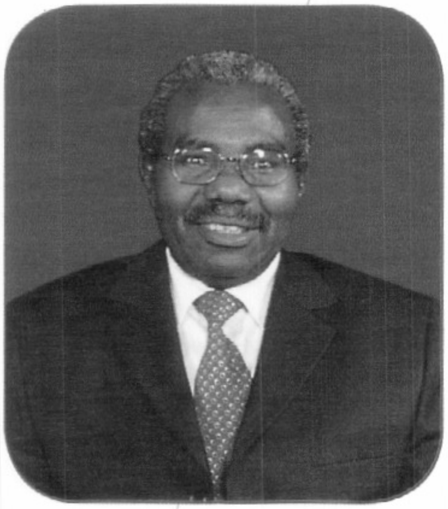
The company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

Ms. J.N. Ongegu
(Secretary)

6 November, 2003

Chairman's Statement



Business Environment

After the much heralded political transition that occurred after Kenya's General Elections in December 2002, economic activity in Kenya is yet to increase in any meaningful way although there are some positive signs that it might, in the medium to long-term future. All key sectors of the economy including agriculture, construction and manufacturing have remained subdued, defying the high expectations that the change of government brought with it. However, at 1.4%, economic growth rate in the 9 months to September 2003 was higher than the 0.9% recorded in the comparable period in 2002 and it is to be hoped that this positive trend will not only continue but also pick up momentum.

As a result, most businesses in the economy continued to focus on effective cost management as the primary means of securing profitability. This of course had the adverse effect of limiting potential opportunities for BOC Kenya's business, whose main clientele is productive and service organizations operating in the Kenyan economy.

Results

Despite the continuing difficulties in the Kenyan business environment, the company achieved positive results, registering growth in revenues and operating profit, of 4.5% and 8.9% respectively. This impressive performance is mainly attributable to increases in sales volumes of our core gas products; focus on cost reduction and the continuing success of the company's drive to secure growth through expansion, particularly in North Western Tanzania.

The company also registered strong growth in cashflows not only as a result of the sales and profit performance but also due to management focus on better working capital management.

In line with these good results, I am pleased to report that the Board will be recommending at the Annual General Meeting, payment of a final dividend at the same level as last year, of Shs 65,411,000, which amounts to Shs 3.35 per share. The payout includes a special dividend of 60 cents per share. In total therefore, dividend for the year will amount to Shs 84,936,000 or Shs 4.35 per share.

Safety, Health and Environmental Practices

Safety, Health, Environment and Quality (SHEQ) continues to be a priority area.

NOSA, an international and independent safety, health and environment auditing body based in South Africa, regularly audits our safety programmes on a five star grading system. For the third year running, our operations were awarded a five star rating. As at 30 September 2003, the company achieved 1,454,821 disabling accident-free hours.

During the year the company was awarded by NOSA the second prize in the Health and Safety Competition, Industrial Category, for all NOSA accredited companies in Africa. The company's site in Nairobi was also among the four best sites in BOC Group companies in Africa.

The success of the safety programme is largely due to the initiatives that have been put in place such as the Near Miss reporting programme, Suggestion Scheme and Chores, where pertinent safety issues are discussed.

Recently, employees underwent a behavioural training programme on Safety Through Empowerment of People (STEP). It is hoped that by changing the way our people perceive safety through checking ourselves and our colleagues' behaviour, we will ultimately have a safer environment in which we will be proud to work in.

ISO 9001:2000

The company has embarked on implementing ISO 9001:2000 and our target is to be accredited by the end of 2004.

Human Resources

The company continues to focus on building capacity in our people to support its growth and profitability plans.

Local and overseas training was offered to a number of employees as part of their development. During the year, the sales and marketing functions were restructured with the aim of improving our ability to serve the local market and at the same time, making it easier for our operations to be well aligned with the BOC Group's international marketing initiatives. The restructure did create several openings that have now been filled, mainly from within, by a strong team.

We continue to enjoy productive working relationships.

Board of Directors

Messrs. Stephen Viljoen and Richard L. Hogben who were directors at the year end retired from the Board on 2 October, 2003. Messrs. R.D. Clarke and A. Jones were appointed to the Board on the same date, whilst Mr. John Kariuki who was appointed to the position of Managing Director, joined the board on 3 March, 2003. The Board wishes to thank Messrs. Viljoen and Hogben for their valuable contribution to the company. The Board also welcomes the new directors and looks forward to their contribution in the affairs of the company. The board is also confident that Mr. John Kariuki, the newly appointed Managing Director and his team, will deliver on the company's growth agenda.

Growth Prospects

Your company has set itself ambitious growth targets in the coming year and management is currently in the process of laying the groundwork to facilitate their achievement.

With the expected resumption of donor funding, there are good indicators that economic activity in the second half of 2004 will pick. The Board is confident that the company is well placed to take advantage of emerging opportunities in the wider East Africa market.

Handigas, the company's LPG brand is also expected to contribute to the growth targets through careful selection of niche opportunities. We also plan to re-launch the company's range of superior welding products and enhance sales of medical equipment, particularly to government hospitals as the government continues to raise their level of funding in line with its stated objective of improving delivery of healthcare to all.

Appreciation

I wish to thank my fellow directors, shareholders, customers, agents, suppliers, management and staff for their valuable contribution and continued support.

J.G. Kibe
(Chairman)

6 November 2003

Corporate Governance and Comparative Results

Corporate Governance and Comparative Results

BOC Kenya Limited remains 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.

During the year, the company received special recognition from the Institute of Certified Public Accountants, Nairobi Stock Exchange and the Capital Markets Authority, in the form of The First Runner Up prize for Excellence in Financial Reporting, among listed non-financial institutions. The Board believes that this is strong testament of the market's belief and confidence in BOC Kenya's commitment to the principles of transparency, integrity and accountability.

Board of Directors

The Board has a collective responsibility to provide effective corporate governance, which involves 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.

Six out of the seven members of the Board, including the Chairman are non-executive directors. Messrs. Clarke, Rowell and Jones 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 eligible, 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 recognizes the vital role that non-executive directors play in ensuring high governance standards and depends on their input for proper deliberation of matters. Approved levels of delegated authority ensure 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 bi-annually 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 an oversight on internal control systems. The Audit Committee also reviews bi-annually, 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, which includes a representation of employees, meets at least bi-annually, 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.

Risk Management and Internal Controls

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

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 accorded high risk profiles are given urgent attention by management.

Safety, Health and Environmental Practices

Protection of staff, colleagues, stakeholders and the environment is paramount in all our activities. The company 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.

Metal cutting at Kenya Railways Central Workshop, using high purity Oxygen and Acetylene products from BOC Kenya Ltd.

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 authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

Employment Equity

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

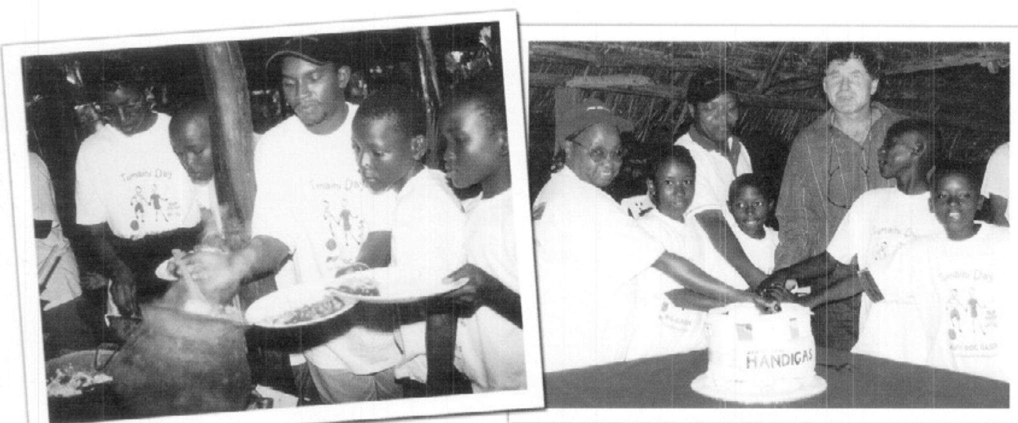
Corporate Social Responsibility

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

In particular, the company has a successful employee-oriented community support programme in which employees give their time on a voluntary basis to support disadvantaged children from orphanages and child-care organizations around the country. The philosophy of this initiative is to work with, rather than for, the communities we support, and is intended to confer in the long run, self sufficiency to these orphanages and child-care organizations.

This approach has won recognition from the United Nations for its effectiveness and positivism, through a report on African Oxygen Limited, our South African sister company, which has an identical community support programme. Some of the projects that BOC Kenya is currently supporting under this initiative are:

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



***Left:** Tumaini Day celebrations, September. All fun time for children and staff in the BOC community involvement program. **Right:** Messrs. John Kariuki and Stephen Viljoen lead in cutting the "Handigas" cake during the Tumaini Day celebrations.*

Code of Conduct

The BOC 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 that requires them to maintain the highest personal and ethical standards and to act in good faith and in the interests of the Group. It is our passionate belief that only by acting with integrity can we earn the trust of our customers, shareholders, colleagues, suppliers and the communities among whom we live and work.

Consistent with this belief, the BOC Group introduced during 2003, a Code of Conduct for all its directors and staff, intended to enhance and clarify their understanding of the applicable basic rules and their personal responsibility in securing at all times, the organisation's ethical and legal commitment to integrity and responsible practice.

The Code of Conduct consists of a set of universal standards that apply to all of the Group's business dealings and processes, drawing together and building on many standards and processes already active in its businesses around the world, including its guiding principles of ACTS (Accountability, Collaboration, Transparency and Stretch), our shared values.

This Code has already been introduced, through an awareness workshop, to members of the senior management team of BOC Kenya and roll-out to the rest of the company is in progress.

Shareholders' profile for the year ended 30 September 2003

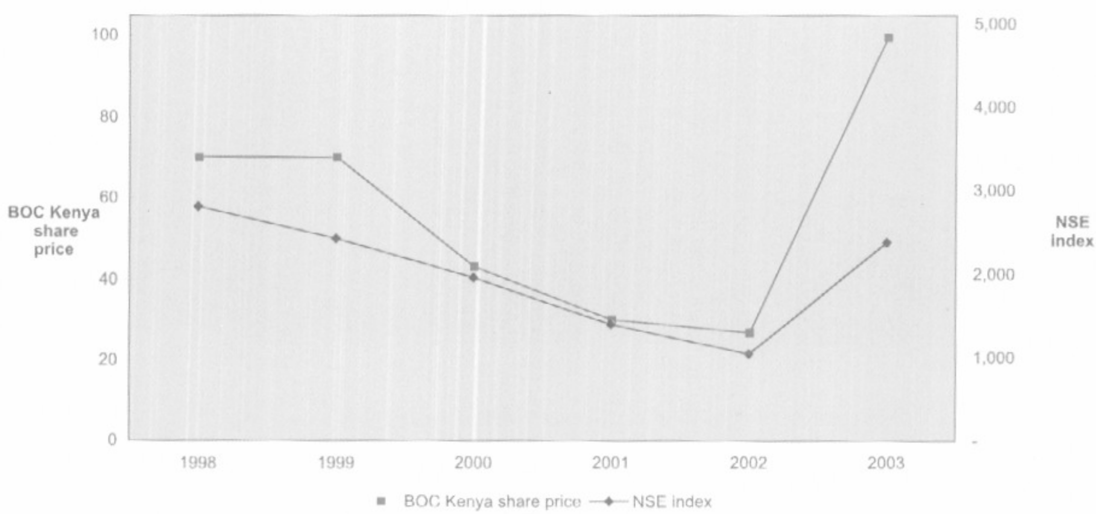
Ownership structure

	Number of shareholders	Number of shares held	% of issued share capital
Foreign investors	5	12,912,170	66.13
Local individual investors	544	2,558,270	13.10
Local institutional investors	106	4,045,999	20.72
East Africa 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	181,845	0.93
Mr. Mulchand Narshi Shah	159,900	0.82
Mr. Kanaksinh Karsandas Babla & Sandip Kanaksinh Babla	134,144	0.69
Barclays Bank Nominees 'Account 9187'	130,000	0.67
Insurance Company of East Africa ' Life Fund A/C'	124,432	0.64
	15,619,884	80.00

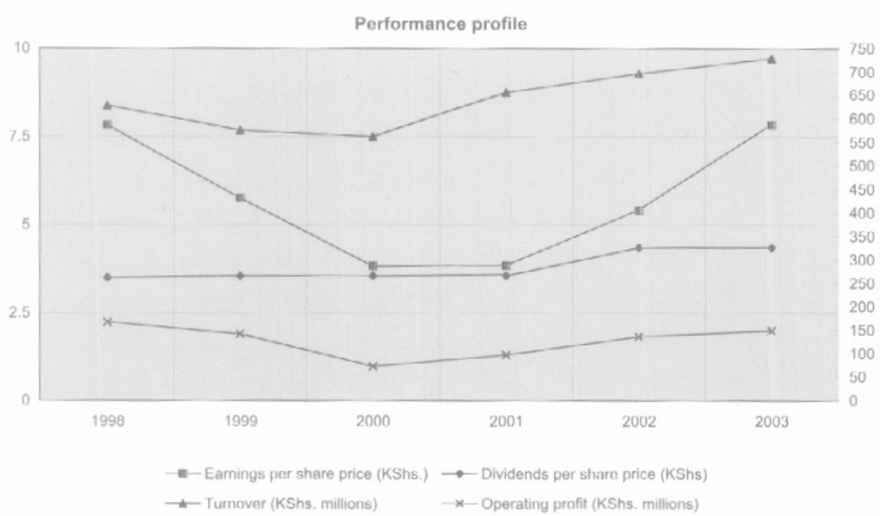
BOC Kenya share price compared to Nairobi Stock Exchange (NSE) index



Value distributed and retained

The Group created wealth amounting to Shs 345,550,000 (2002: Shs 292,906,000).
The charts below show how the wealth created was distributed.

	2003 Shs'000	2002 Shs'000
Turnover	728,720	697,505
Cost of materials, supplies and services	(383,170)	(404,599)
Value added	345,550	292,906
Value distributed and retained		
Employees (excluding PAYE)	98,209	91,307
Shareholders	84,936	84,936
Taxation	94,722	96,108
Reinvestment	67,683	20,555
	345,550	292,906



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 fair 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 a going concern for at least the next twelve months from the date of this statement.

J.G. Kibe
(Chairman)

J.M. Kariuki
(Managing Director)

6 November, 2003

Report of the Auditors to the Members of BOC Kenya Limited

We have audited the financial statements set out on pages 13 to 32. 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 15 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 11. 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 2003 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

6 November, 2003

Consolidated Profit and Loss Account

	Notes	2003 Shs'000	2002 Shs'000
Sales	1	728,720	697,505
Cost of sales		(304,245)	(301,535)
Gross profit		424,475	395,970
Other operating income		18,233	3,861
Distribution costs		(78,272)	(75,118)
Administrative expenses		(204,078)	(176,822)
Other operating expenses		(11,683)	(11,356)
Operating profit before investment and finance income	2	148,675	136,535
Finance income	4	11,386	24,025
Investment income	5	14,030	3,630
Fair value gain / (loss) on investments	14	36,629	(9,200)
Operating profit before tax		210,720	154,990
Tax	6	(58,101)	(49,499)
Net profit		152,619	105,491
Earnings per share (Shs per share)			
- basic	7	7.82	5.40
Dividends:			
Interim dividends – paid in the year	8	19,525	19,525
Proposed final dividend for the year	8	65,411	65,411
		84,936	84,936

Consolidated Balance Sheet

	Notes	2003 Shs'000	2002 Shs'000
CAPITAL EMPLOYED			
Share capital	9	97,627	97,627
Share premium	9	2,554	2,554
Revaluation reserves	10	124,001	125,616
Retained earnings		784,963	715,665
Proposed dividends	8	65,411	65,411
Shareholders' funds		1,074,556	1,006,873
Non-current liabilities			
Deferred tax	11	49,351	41,566
Retirement benefit obligations	12	534	2,086
		49,885	43,652
		1,124,441	1,050,525
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13 (a)	524,927	527,434
Investments	14	61,050	24,421
Prepaid operating leases	15	4,536	4,592
		590,513	556,447
Current assets			
Inventories	16	159,590	164,105
Receivables and prepayments	17	260,068	257,128
Cash and cash equivalents	18	332,165	299,644
		751,823	720,877
Current liabilities			
Payables and accrued expenses	19	217,895	226,533
Borrowings	20	-	266
		217,895	226,799
Net current assets		533,928	494,078
		1,124,441	1,050,525

The financial statements on pages 13 to 32 were approved for issue by the board of directors on 6 November, 2003 and signed on its behalf by:

J.G. Kibe
(Chairman)

J.M. Kariuki
(Managing Director)

Company Balance Sheet

	Notes	2003 Shs'000	2002 Shs'000
CAPITAL EMPLOYED			
Share capital	9	97,627	97,627
Share premium	9	2,554	2,554
Revaluation reserves	10	124,001	125,616
Retained earnings		787,210	718,271
Proposed dividends	8	65,411	65,411
Shareholders' funds		1,076,803	1,009,479
Non-current liabilities			
Deferred tax	11	48,057	40,091
Retirement benefit obligations	12	534	2,086
		48,591	42,177
		1,125,394	1,051,656
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13(b)	505,898	503,633
Investments	14	61,110	24,481
Prepaid operating leases	15	4,536	4,592
		571,544	532,706
Current assets			
Inventories	16	135,982	149,207
Receivables and prepayments	17	309,221	318,303
Cash and cash equivalents	8	324,595	277,362
		769,798	744,872
Current liabilities			
Payables and accrued expenses	19	215,948	225,656
Borrowings	20	-	266
		215,948	225,922
Net current assets		553,850	518,950
		1,125,394	1,051,656

The financial statements on pages 13 to 32 were approved for issue by the board of directors on 6 November, 2003 and signed on its behalf by:

J.G. Kibe
(Chairman)

J.M. Kariuki
(Managing 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, 2002							
At start of year		97,627	2,554	138,924	697,511	49,790	986,406
Transfer of excess depreciation	10	-	-	(2,773)	2,773	-	-
Deferred tax on transfer	10	-	-	832	(832)	-	-
Revaluation surplus	10	-	-	(11,367)	(4,342)	-	(15,709)
Net gains/(losses) not recognised in the profit and loss account		-	-	(13,308)	(2,401)	-	(15,709)
Net profit		-	-	-	105,491	-	105,491
Dividends:							
- Final for 2001 (paid)	-	-	-	-		(49,790)	(49,790)
- Interim for 2002 (paid)	-	-	-			(19,525)	(19,525)
- Proposed final for 2002		-	-	-	(65,411)	65,411	-
At end of year		97,627	2,554	125,616	715,665	65,411	1,006,873
Year ended 30 September, 2003							
At start of year		97,627	2,554	125,616	715,665	65,411	1,006,873
Transfer of excess depreciation	10	-	-	(2,308)	2,308	-	-
Deferred tax on transfer	10	-	-	693	(693)	-	-
Net gains/(losses) not recognised in the profit and loss account		-	-	(1,615)	1,615	-	-
Net profit		-	-	-	152,619	-	152,619
Dividends:							
- Final for 2002 (paid)		-	-	-	-	(65,411)	(65,411)
- Interim for 2003 (paid)	8	-	-	-	(19,525)	-	(19,525)
- Proposed final for 2003	8	-	-	-	(65,411)	65,411	-
At end of year		97,627	2,554	124,001	784,963	65,411	1,074,556

Consolidated Cash Flow Statement

	Notes	2003 Shs'000	2002 Shs'000
Operating activities			
Cash generated from operations	23	168,985	95,703
Interest received		11,667	15,500
Interest paid		(179)	(51)
Dividends received		14,030	3,630
Tax paid		(54,468)	(47,956)
Net cash generated from operating activities		140,035	66,826
Investing activities			
Purchase of property, plant and equipment	13 (a)	(47,915)	(37,132)
Proceeds from disposal of property, plant and equipment		15,361	305
Net cash used in investing activities		(32,554)	(36,827)
Financing activities			
Dividends paid		(84,936)	(71,843)
Net cash used in financing activities		(84,936)	(71,843)
Increase / (decrease) in cash and cash equivalents		22,545	(41,844)
Movement in cash and cash equivalents			
At start of year	18	299,378	332,270
Increase / (decrease)		22,545	(41,844)
Effects of exchange rate changes on cash and cash equivalents		10,242	8,952
At end of year	18	332,165	299,378

Accounting Policies

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

(a) ***Basis of preparation***

The consolidated financial statements are prepared in accordance and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Shs) and prepared under the historical cost convention as modified by the revaluation of buildings and the carrying of investments at fair values.

The reparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) ***Group accounting***

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(c) ***Revenue recognition***

Sales are recognised upon delivery of products to customers and performance of services, and are stated net of VAT and discounts.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset, unless collectibility is in doubt.

Dividends are recognised as income in the period in which the right to receive payment is established.

(d) ***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 while the group's reporting currency at average exchange rates for the year and their balance sheets are translated at the rates ruling at the end of the year.

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

All property, plant and equipment is 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.

Buildings	50 years
Plant and machinery	5 - 20 years
Cylinders	25 years
Motor vehicles	5 - 10 years
Furniture and fixtures	4 - 10 years

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.

(f) ***Accounting for leases***

Leases under which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. The carrying value of prepaid operating leases represents the un-amortised historical cost of leasehold land.

(g) ***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

Other investments comprising shares in a listed company are classified 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 value and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the profit and loss account statements in the year in which they arise.

(h) *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.

(i) *Trade receivables*

Trade receivables are carried at amortised invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

Bad debts are written off in the year in which they are identified.

(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) *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 it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(l) *Borrowings*

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(m) *Retirement benefit obligations*

The company operates a defined contribution retirement benefit scheme for its unionised employees and a defined benefit scheme for non-unionised employees. The assets of both schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees.

The company's contributions to the defined contribution 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.

(n) *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.

Notes Forming Part of the Financial Statements

1. Sales

	2003 Shs'000	2002 Shs'000
Sales of goods	637,786	608,672
Revenue from services	90,934	88,833
	728,720	697,505

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.

2. Operating profit

The following items have been charged in arriving at operating profit:

	2003 Shs'000	2002 Shs'000
Depreciation on property, plant and equipment (Note 13)	32,602	31,887
Repairs and maintenance expenditure on property, plant and equipment	9,628	7,867
Profit on disposal of property, plant and equipment	3,350	305
Amortisation of operating leases	56	56
Trade receivables – impairment charge for bad and doubtful debts	29,564	5,900
Staff costs (Note 3)	129,495	119,307
Auditors' remuneration	2,300	1,875

3. Staff costs

The following items are included within staff costs:

	2003	2002
Salaries and wages	122,805	114,607
Social security benefits	393	381
Retirement benefits costs:		
- Defined contribution scheme	1,138	1,330
- Defined benefit scheme (Note 12)	5,159	2,989

The number of persons employed by the company at the end of the year was 172 (2002: 164).

4. Finance income

	2003 Shs'000	2002 Shs'000
Interest expense on bank borrowings	(179)	(51)
Interest income	11,667	15,500
Net foreign exchange gain / (loss)	(102)	8,576
Net finance income	11,386	24,025

5. Investment income

	2003 Shs'000	2002 Shs'000
Dividend income	14,030	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

	2003 Shs'000	2002 Shs'000
Current tax	50,316	46,143
Deferred tax (Note 11)	7,785	3,356
	58,101	49,499

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

	2003 Shs'000	2002 Shs'000
Profit before tax	210,720	154,990
Tax calculated at a tax rate of 30% (2002 – 30%)	63,216	46,497
Tax effect of:		
Income not subject to tax	(15,494)	(676)
Expenses not deductible for tax purposes	9,619	2,760
Others	760	918
Tax charge	58,101	49,499

Notes forming part of the financial statements (continued)

7. **Earnings per share**

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 152,619,000 (2002: Shs 105,491,000) and on the weighted average number of ordinary shares outstanding during the period.

	2003 Shs '000	2002 Shs '000
Net profit attributable to shareholders	152,619	105,491
Adjusted weighted average number of ordinary shares in issue	9,525	19,525
Basic earnings per share (Shs)	7.82	5.40

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 5 February 2004, a final dividend in respect of the year ended 30 September 2003 of Shs 2.75 per share amounting to 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 Shs 19,525,446 was paid. The total dividend for the year is therefore Shs 4.35 per share (2002: Shs 4.35), amounting to a total of Shs 84,935,690 (2002: Shs 84,935,690).

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 30 September 2002 and 2003	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**

Revaluation reserves relate to surplus on revaluation of the company's buildings (Note 13). Revaluation reserves are non-distributable.

11. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2002: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
At start of year	41,566	38,210	40,091	37,915
Income statement charge (Note 6)	7,785	3,356	7,966	2,176
At end of year	49,351	41,566	48,057	40,091

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:

(a) Group	1.10.2002 Shs'000	Charged/ (credited) to P&L Shs'000	30.09.2003 Shs'000
Deferred tax liabilities			
Accelerated tax depreciation	47,462	4,316	51,778
Unrealised exchange gains	-	227	227
	47,462	4,543	52,005
Deferred tax assets			
Provisions	(3,076)	528	(2,548)
Tax losses carried forward	(2,820)	2,714	(106)
	(5,896)	3,242	(2,654)
Net deferred tax liability	41,566	7,785	49,351

Deferred tax of Shs 692,410 (2002: Shs 831,900) 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)

(b) Company	1.10.2002	Charged/ (credited) to P&L	30.09.2003
	Shs'000	Shs'000	Shs'000
Deferred tax liabilities			
Accelerated tax depreciation	43,167	7,211	50,378
Unrealised exchange gains	-	227	227
	43,167	7,438	50,605
Deferred tax assets			
Provisions	(3,076)	528	(2,548)
Net deferred tax liability	40,091	7,966	48,057

12. Retirement benefit obligations – Group and Company

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

	2003 Shs'000	2002 Shs'000
Present value of funded obligations	160,162	128,996
Fair value of scheme assets	164,346	129,682
Present value of over funded obligations	(4,184)	(686)
Unrecognised actuarial gains	4,718	2,772
Liability in the balance sheet	534	2,086

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

	2003 Shs'000	2003 Shs'000
Current service cost	5,365	3,203
Interest cost	11,381	11,280
Expected return on plan assets	(11,587)	(11,494)
Net charge for the year included in staff costs	5,159	2,989
Contributions paid	(6,711)	(5,852)
Movement in the liability recognised in the balance sheet	(1,552)	(2,863)

12. Retirement benefit obligations – Group and Company (continued)

The actual return on scheme assets was Shs 37,636,000 (2002: Shs 16,439,000)

The principal actuarial assumptions used were as follows:

	2003	2002
- discount rate	9.0 %	10.0 %
- expected return on scheme assets	9.0 %	10.0 %
- future salary increases	7.0 %	8.0 %
- future pension increases	0%	0 %

13. Property, plant and equipment

(a) Group

	Buildings Shs'000	Plant and motor vehicles Shs'000	Cylinders Shs'000	Furniture and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation						
At start of year	213,771	336,340	223,677	53,909	1,140	828,837
Additions	548	23,937	94	6,272	17,064	47,915
Disposals	(16,592)	(6,912)	(327)	-	-	(23,831)
Transfers	-	2,143	12,008	-	(14,151)	-
At end of year	197,727	355,508	235,452	60,181	4,053	852,921
Depreciation						
At start of year	(142)	(193,697)	(58,132)	(49,432)	-	(301,403)
Charge for the year	(4,482)	(17,924)	(8,070)	(2,126)	-	(32,602)
On disposals	30	5,654	327	-	-	6,011
At end of year	(4,594)	(205,967)	(65,875)	(51,558)	-	(327,994)
Net book amount						
At 30 Sep, 2003	193,133	149,541	169,577	8,623	4,053	524,927
At 30 Sep, 2002	213,629	142,643	165,545	4,477	1,140	527,434

13. **Property, plant and equipment (continued)**

b) Company

	Buildings Shs'000	Plant and motor vehicles Shs'000	Cylinders Shs'000	Furniture and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation						
At start of year	211,507	323,318	214,149	53,074	1,140	803,188
Additions	548	23,937	94	6,085	14,950	45,614
Disposals	(12,000)	(6,316)	(327)	-	-	(18,643)
Transfers	-	-	12,008	-	(12,008)	-
At end of year	200,055	340,939	225,924	59,159	4,082	830,159
Depreciation						
At start of year	-	(193,077)	(57,329)	(49,149)	-	(299,555)
Charge for the year	(4,311)	(17,166)	(7,780)	(2,029)	-	(31,286)
On disposals	30	6,223	327	-	-	6,580
At end of year	(4,281)	(204,020)	(64,782)	(51,178)	-	(324,261)
Net book amount						
At 30 Sep, 2003	195,774	136,919	161,142	7,981	4,205	505,898
At 30 Sep, 2002	211,507	130,241	156,820	3,925	1,140	503,633

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

Buildings were last valued during the year ended 30 September, 2002, 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 at historical cost basis, the amounts would be as follows:

	2003 Shs'000	2002 Shs'000
Cost	75,727	88,155
Accumulated depreciation	(2,003)	(142)
Net book amount	73,724	88,013

14. Investments

	Group 2003 Shs'000	Group 2002 Shs'000	Company 2003 Shs'000	Company 2002 Shs'000
Investments in subsidiaries	-	-	60	60
Other investments	61,050	24,421	61,050	24,421
	61,050	24,421	61,110	24,481

Investments in subsidiaries

	Percentage shareholding	2003 Shs'000	2002 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 valuation of these instruments at the balance sheet date resulted in a fair value gain of Shs 36,629,400.

15. Prepaid operating leases – Group and Company

	2003 Shs'000	2002 Shs'000
Leases expiring beyond five years		
At start of year	4,592	4,648
Amortisation	(56)	(56)
At end of year	4,536	4,592

Proxy

The Secretary
BOC Kenya Limited
P.O. Box 18010-00500
Nairobi.

I/We ____

of ____

being a member/members of the above named company appoint

____

of ____

or failing him/her of ______________________________

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held on Thursday, 5 February, 2004 and at any adjournment thereof.

Signed by me/us this ______________ day of ______________

Signature (s) ____________________________

This form is to be used in favour of/against* the resolutions.
Unless otherwise instructed, the proxy will vote as he/she thinks fit.

*Strike out whichever is not desired

BOC GASES
BOC KENYA LIMITED

Notes forming part of the financial statements (continued)

16. Inventories

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Raw materials	13,313	13,926	13,313	13,926
Saleable stock	79,532	71,573	58,869	56,719
Plant spares	51,385	60,466	48,509	60,466
Goods in transit	12,995	15,269	12,926	15,269
Work in progress	2,365	2,871	2,365	2,827
	159,590	164,105	135,982	149,207

17. Receivables and prepayments

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Trade receivables	255,938	274,880	227,093	233,805
Less: Provision for impairment loss	61,378	50,877	57,385	49,035
	194,560	224,003	169,708	184,770
Staff debtors	21,956	22,360	22,223	22,399
Prepayments	620	1,089	305	890
Receivables from related companies (Note 25)	4,196	2,443	110,069	101,930
Tax recoverable	-	3,090	-	1,886
Other receivables	38,736	4,143	6,916	28,827
	260,068	257,128	309,221	318,303

18. Cash and cash equivalents

	Group 2003 Shs'000	Group 2002 Shs'000	Company 2003 Shs'000	Company 2002 Shs'000
Cash at bank and in hand	58,821	22,469	51,251	-
Short term bank deposits	273,344	277,145	273,344	277,362
	332,165	299,644	324,595	277,362

18. Cash and cash equivalents

The weighted average effective interest rate on short-term bank deposits at year-end was 1.8 % (2002: 7.7 %).

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

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Cash and bank balances as above	332,165	299,644	324,595	277,362
Bank overdrafts (Note 19)	-	(266)	-	(266)
	332,165	299,378	324,595	277,096

19. Payables and accrued expenses

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Cylinder deposits	100,413	93,817	98,496	93,071
Trade payables	64,391	25,568	63,004	23,949
Amounts due to related companies (Note 24)	17,184	40,192	17,184	40,192
General provisions	11,578	31,036	11,578	31,036
Leave accrual	6,533	7,225	6,533	7,225
Unrealised interest on trade receivables	6,139	18,810	6,139	18,810
Tax payable	543	-	2,786	-
Other payables	11,114	9,885	10,228	11,373
	217,895	226,533	215,948	225,656

20. Borrowings – Group and Company

	2003 Shs'000	2002 Shs'000
The borrowings are made up as follows:		
Bank overdraft	-	(266)
The weighted average effective interest rate at the year end on the bank overdraft was:	-	17 %

21. **Contingent liabilities**

At 30 September 2003 the company had given guarantees amounting to Shs 9,917,806 (2002: Shs 9,049,699) on behalf of third parties.

There are certain pending legal claims brought against the company as at 30 September 2003 for which a provision has been made in the books. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided for in these financial statements.

22. **Capital commitments**

At 30 September 2003 the company had outstanding capital commitments amounting to Shs 32,400,000 (2002: Shs 4,880,000).

23. **Cash generated from operations**

Reconciliation of profit before tax to cash generated from operations:

	2003 Shs'000	2002 Shs'000
Profit before tax	210,720	154,990
Adjustments for:		
Depreciation (Note 13 (a)	32,602	31,887
Amortization of operating leases	56	56
Profit on sale of property, plant and equipment	(3,350)	(305)
Fair value (gain) / loss on investments	(36,629)	9,200
Unrealised foreign exchange gain	(102)	(8,951)
Interest income (Note 4)	(11,667)	(15,500)
Interest expense (Note 4)	179	51
Dividend income (Note 5)	(14,030)	(3,630)
Changes in working capital:		
– receivables and prepayments	(2,940)	(13,896)
– inventories	4,515	(13,048)
– Payables and accrued expenses	(8,638)	(42,288)
– Retirement benefits liabilities	(1,552)	(2,863)
Cash generated from operations	168,985	95,703

24. **Related party transactions**

The ultimate parent of the 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.

24. Related party transactions (continued)

The following transactions were carried out with related parties:

i) Services incurred on behalf of related parties

	2003 Shs'000	2002 Shs'000
BOC Malawi	460	974
BOC Zambia	638	1,612
BOC Zimbabwe	398	-
BOC Nigeria	1,261	2,094
	2,757	4,680

ii) Purchase of goods and services from related parties

	2003 Shs'000	2002 Shs'000
BOC Group plc	10,365	25,052
Afrox Limited	40,538	41,062
Cryostar- France	735	-
BOC Zambia	572	-
	52,210	66,116

Expenses incurred on behalf of other related parties were recharged at actual cost. Purchases from related parties were made at terms and conditions similar to those offered to third parties.

iii) Outstanding balances included in receivables

	2003 Shs'000	2002 Shs'000
BOC Malawi	923	463
BOC Zambia	640	549
BOC Zimbabwe	398	-
BOC Nigeria	2,235	1,431
	4,196	2,443

iv) Outstanding balances arising from purchase of goods and services included in payables

	2003 Shs'000	2002 Shs'000
BOC Group plc	5,334	7,227
Afrox Limited	11,452	7,426
Cryostar- France	398	-
	17,184	14,653

v) Directors' remuneration

	2003	2002
- fees	1,677	1,113
- management	20,735	12,936