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"TOUCHING PEOPLE'S LIVES, EVERYDAY IN EVERY WAY"

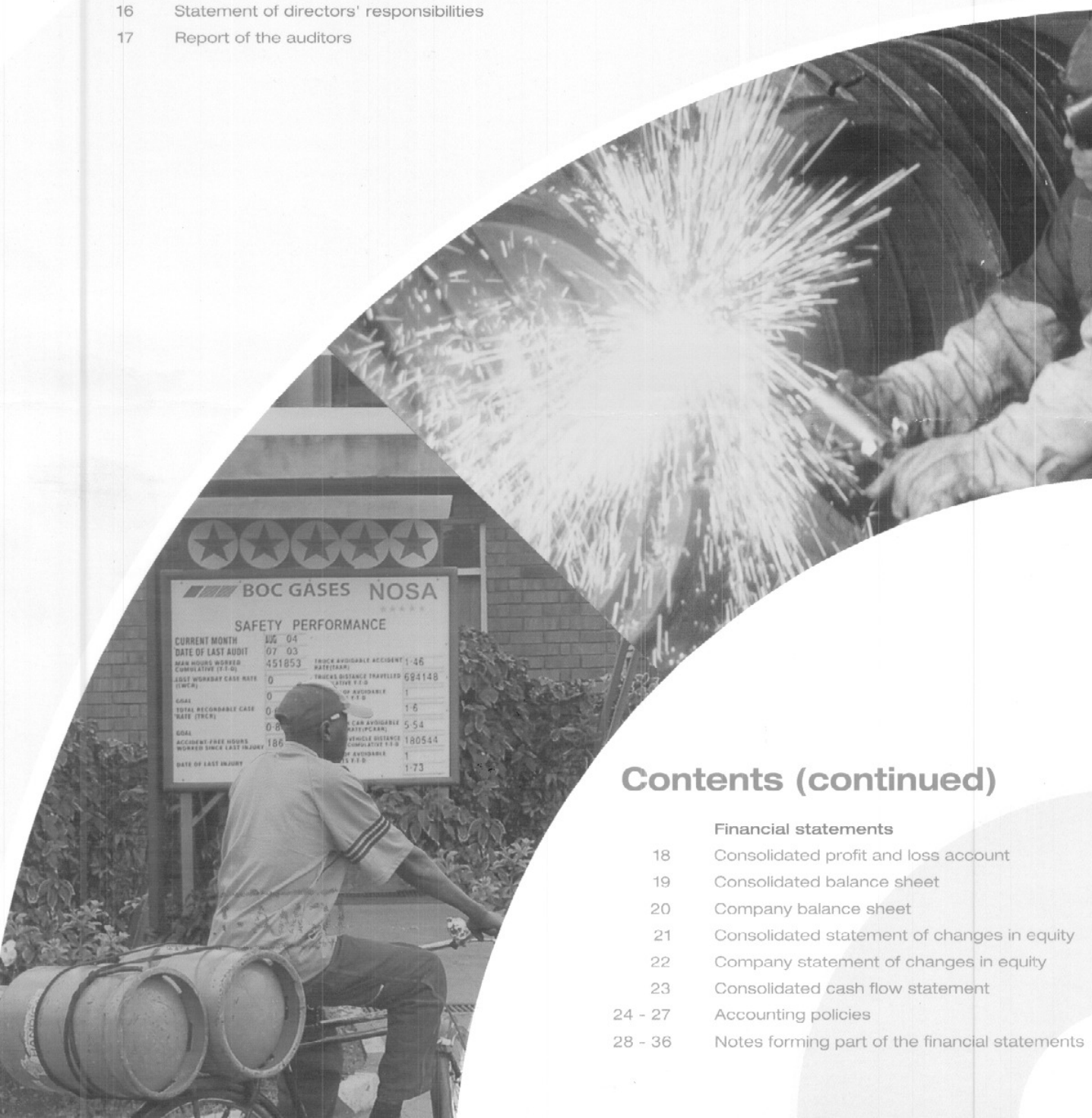


BOC GASES
BOC KENYA LIMITED

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Notice of meeting

Notice is hereby given that the Sixty Fourth Annual General Meeting of BOC Kenya Limited will be held at The Stanley, on Thursday, 20 January 2005 at 11:00 am for the following purposes:

ORDINARY BUSINESS

- (a) To receive and adopt the Audited Financial Statements for the year ended 30 September 2004 together with the Directors' and Auditors' Reports therein.
- (b) To declare a dividend.
- (c) To re-elect the following directors who retire by rotation in terms of the Company's Articles of Association. All retiring directors are eligible and offer themselves for re-election.
M G Rowell
A C Juma
- (d) To authorise the Directors to fix the remuneration of the auditors for the year ended 30 September 2004.
- (e) To approve the remuneration of the directors for the year ended 30 September 2004.
- (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
PO Box 18010
NAIROBI
4 December 2004

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BOC Kenya Limited

Year ended 30 September 2004

Board of Directors

2007/0764



JOSEPH GILBERT KIBE - CHAIRMAN (3rd right)

A BA graduate of London University through Makerere College, Joe Kibe, has 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 also a renown 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.

ALFRED C JUMA (5th right)

A BA (Hons) graduate of London University through Makerere College, Alfred C Juma, 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 Chairman of Automobile Association of Kenya and Vice Chairman, National Bank of Kenya Limited. He was appointed a non-executive director of BOC Kenya Limited in May 1994.

NGUGI KIUNA (Inset)

With a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England, Ngugi Kiuna, is the Managing Director of Johnson East Africa Limited. He was appointed a non-executive Director of BOC Kenya Limited in October 1993.

JOHN MUNGAI KARIUKI (4th right)

Mr John Kariuki, was appointed to the board of BOC Kenya Limited on 3 March 2003 and then appointed Managing Director on 2 October 2003. Mr Kariuki joined BOC Kenya Limited on 2 July 1990 and he has a wealth of experience in the operations of the company, having previously held the positions of Internal Audit Manager, Company Secretary and General Manager - Finance & Administration. He also has insight of operations of African Oxygen Limited, having served on secondments during his career with the BOC Group. Mr Kariuki trained as an accountant with Coopers & Lybrand, now part of PricewaterhouseCoopers, and is a member of the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya.

ROBERT DUNCAN CLARKE (2nd right)

Rob Clarke is a C.A.(S.A) and has 19 years experience in African Oxygen Ltd (Afrox), predominantly in the Finance field. He joined Afrox in 1994 as Administration Manager in the then Natal Region. Prior to this, he held the position of Finance Director in Van Dyck Carpets-a subsidiary of the Barlow's group.

He was transferred to the position of Administration Manager, Wits, in 1990 and in 1995 was promoted to the position of Regional Manager-Kwa Zulu Natal. He then spent two years in the industrial business leading this Region.

In 1997 he was promoted to the position of General Manager - Finance of African Oxygen Ltd, a position that he held for 6 1/2 years. He was educated at Michaelhouse and subsequently Durban University where he obtained his B.Comm degree and Diploma in Accountancy prior to qualifying as a Chartered Accountant. Rob holds a number of directorships in our African Operations.

MICHAEL GUY ROWELL (6th right)

Michael Rowell is a Chartered Secretary and also holds various management diplomas. 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.

ALAN JONES(1st right)

Alan Jones joined The BOC Group in Nairobi, Kenya in 1958 as a Trainee and has served the Group in Kenya, Uganda, Zimbabwe and South Africa. Prior to joining the board of BOC Kenya, Alan was the General Manager of the Northern Region of African Oxygen Limited based in Germiston, South Africa.

Alan was educated in Kongwa, Tanzania and in his 45 years service in The BOC Group has held senior and executive management positions in Kenya, Zimbabwe and South Africa.



Directors' Report

The directors submit their report together with the audited financial statements for the year ended 30 September 2004, which disclose the state of affairs of the company and the group.

INCORPORATION AND REGISTERED OFFICE

The company is incorporated in Kenya under the Kenyan 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 manufacture and sale of industrial and medical gases, and welding products.

RESULTS AND DIVIDEND

The net profit for the year of Shs 160,117,000 (2003: Shs 152,619,000) has been added to retained earnings. During the year an interim dividend of Shs 19,525,000 (2003: Shs 19,525,000) was paid. The directors recommend the approval of a final dividend of Shs 68,340,000 (2003: Shs 65,411,000).

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 Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and services 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
R D Clarke	
A Jones	
A C Juma	
N Kiuna	
M Rowell	

In accordance with Article 93 of the company's Articles of Association, Messrs Juma and Rowell retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

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

By order of the Board

Ms J N Ongegu

SECRETARY

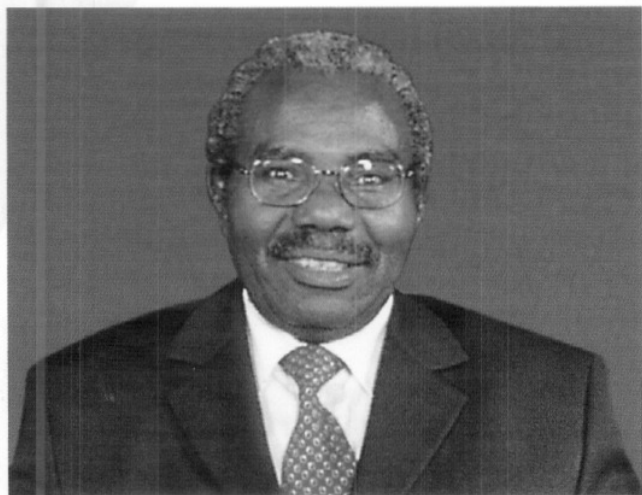
4 November 2004



A new welcoming

This is the new look reception area at the BOC Kenya head office along Kitui Road, Nairobi

Chairman's statement



Business Environment

The 2003/4 financial year was yet another difficult one for the Kenyan business community in general and the trading environment did not register the much anticipated economic improvements.

The combination of an uncertain political environment locally and certain trends in the international business environment posed the most significant challenges. The latter saw the prices of major externally sourced inputs, such as oil, rise to unprecedented levels. This in turn had the effect of dampening economic activity locally through inflation, a weakened exchange rate and reduced disposable incomes.

In spite of these challenges, there were encouraging signs exhibited by some sectors of the economy, which had beneficial results for BOC Kenya. Notably, activity within the local fabrication industry increased significantly, as it did within the sugar industry. Improved government funding for the health sector also saw demand for our medical range of products and services improve.

Results

Against the backdrop of the factors highlighted above, your Company's management paid attention to effective cost and cashflow management, while also aggressively pursuing available business opportunities.

The results for the year ended 30 September 2004 reflect a steady growth in our range of products in spite of the slow economic recovery in the sectors that we service. Consolidated revenues grew by 14% on last year while Operating Profit increased by 27% over the previous period.

It is worth noting that this excellent performance was registered across our entire product and service range as well as across the different geographical markets. The continued focus on cashflow management meanwhile saw working capital improving by Kshs 92 million in the year.

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 of Kshs 68.3 million, which amounts to Kshs 3.50 per share (2003:Kshs3.35). Together with the interim dividend of Kshs. 1.00 per share paid at the half-year, the total pay-out for the year is therefore Kshs. 4.50 per share.

Corporate Initiatives

BOC Kenya Limited, as part of its core values remains fully committed to the principles of transparency, integrity and accountability.

During the year, in recognition of the Company's commitment to the highest standard in Corporate governance, the Company was awarded the 1st runner up prize of the 2004 Financial Reporting (FiRe) awards, under the category of corporate citizenship. In the previous year, the Company had been awarded the 1st runner up prize for excellence in financial reporting, under the listed category non-financial institutions.

During the year the company established a Retirement and Remuneration committee of the Board of Directors whose purpose is to enhance corporate governance on the retirement schemes operated by the company and the implementation of sound compensation policy in the organisation.

Growth Prospects

Your Company's Board and management remain resolutely committed to pursuing strong growth, and once again have set tough targets for the coming year. Significant expansion of activity is planned in the East African market and establishment of the necessary infrastructure is already underway. With the expected resumption of donor funding, there are indications that economic activity will rise in the second half of 2005. Government funding of construction projects will see an increase in demand for the vast range of BOC products. The peace initiatives in the region and the establishment of East Africa Custom Union is positive and the Board is confident that the Company is well placed to take advantage of emerging opportunities in the wider East African region

Appreciation

I thank my fellow directors for their guidance. I also thank the management team and the employees for these excellent results and their continued dedication to deliver superior performance. I also thank our customers, suppliers and agents for their continued support and assure our customers of our commitment to continually strive to improve our products and services to meet their needs.

J G Kibe
Chairman
4 November 2004



Grand opening of the new Gas & Gear centre

Providing our esteemed customers with product visibility and convenience of our wide range of quality products and services.

Managing Director's review



Performance in the Year

In the year to 30 September 2004, sales grew by 14% to close at Kshs 831 million, while operating profit, at Kshs 189 million, was 27% over the previous year. This double-digit growth was achieved despite the challenges faced in our market environment. The economic recovery was stifled by the slow increase in government spending, lower direct foreign investment, increasing crude oil prices, inflation and depreciation of currencies.

The exceptional performance was achieved against a background of moderate economic growth in some sectors that we service, our expanded range of products and services and improved customer service. In response to the prevailing economic environment, the management continued to focus on initiatives to achieve operational efficiencies, improve margins and cashflow management.

In light of our achievements, our company is therefore well placed to take advantage of the emerging opportunities locally and has plans to expand its operations in Tanzania and Uganda.

Safety, Health, Environmental and Quality Practices

Safety, health, environment and quality (SHEQ) remain a top priority of the company. We have continued to ensure that compliance to the SHEQ practices are adhered to so as to assure our customers of safe and quality products.

For the fifth year running, BOC Kenya Ltd retained its National Occupational Safety Association (NOSA) 5-star rating after an audit of the company's safety, health and environment program undertaken in September 2004. NOSA is an independent and internationally reputed company based in South Africa, which annually audits over 1,200 companies in Africa.

This is a testament that our investment in the safety of our employees, customers, suppliers and the community and continued protection of the environment is bearing fruit. By mid December 2004, the company will have attained its second milestone of two million disabling accident-free hours. To sustain the programme, the company is investing in a behavioural driven safety programme as part of our continuous improvement in this top priority area.

The company has submitted findings undertaken by an independent company on the environmental impact assessment in order to be compliant with the requirements of the National Environment Management Authority (NEMA) by 31 December 2004.

ISO 9001:2000

The company is progressing well in the implementation of ISO 9001:2000 quality programme and targets to be accredited by May 2005. The accreditation will be a milestone in guaranteeing our esteemed customers of constant high quality standards of processes products and services.

Human Resources

The company is committed to providing an enabling environment in which each employee is given the opportunity to fully realise their potential to achieve individual, team and company growth objectives.

The company utilises a comprehensive performance management and appraisal system as a basis of identifying and supporting the talent within the organisation. Our training programmes, both local and overseas are competency based.

Due to the enabling environment the company has retained motivated and team focused employees who are always willing to take on stretched performance targets in order to enhance shareholder value on an ongoing basis.

Customer Services

The company launched a Gas and Gear centre at its head office on 4 November 2004. The retailing centre, using a supermarket model gives benefits to our customers, which include;

- Easy access to well displayed and merchandised quality products.
- Availability of information on products and their safety features.
- Product education from well trained sales teams.
- available support to make informed buying decisions on the spot.
- Improved turnaround times based on availing support to make informed buying decisions.

Plans are underway to construct other Gas and Gear centres in major towns in Kenya so as to extend this unique benefit to a larger customer base. To continuously meet our customer delivery needs on a consistent basis, our company invested in distribution infrastructure through the acquisition of additional distribution vehicles. With this improved fleet, our service to neighbouring countries has been enhanced.

Operational Efficiency

The company has incorporated the best operating practices from the BOC and African Oxygen Groups in its production, distribution and supply chain processes. These initiatives continue to deliver operational efficiencies, thereby mitigating the impact of rising input costs in our operations.

Community Involvement Program (CIP)

Our company is and will remain committed in making positive contributions through participation in social projects as part of our corporate social responsibility. Our unique community involvement program is an initiative driven by our employees through dedicating their time and effort to supporting sustainable projects of their choice, with support of the identified communities. For the third consecutive year, our employees have extended support at five children's homes in the region. In addition to the ongoing projects at each of the homes, once a year, we celebrate with these homes the Tumaini Day, which is a day of quality time.

Focus for the future

Our company will focus on opportunities expected from the resumption of external funding

and the economic spiral effects in the various sectors that we service. These include agriculture, fabrication, roads, pipelines and development expansion projects in the region. We will also have an increased focus on the overall welding and LPG business's as well as further extend our product portfolio.

Cross border reach through expansion plans in the Tanzania and Uganda markets and entry into the personal protective equipment (PPE) and safety gear, will form part of our strategy for forward linkage to the market.

Appreciation

I would like to thank the Board for its guidance, the executive management and staff for their commitment and hard work, Customers and Suppliers for their continued support and loyalty. I am confident that the company is well placed to take advantage of emerging opportunities in the East Africa region.
"Every day, in every way BOC touches your life."

J M Kariuki
Managing Director
4 November 2004

Corporate governance

BOC Kenya Limited operating principles are based on behavioural competencies focused on our values, emphasizing: Accountability, Collaboration, Transparency and Stretch (ACTS). 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.

In recognition of the Company's high standards in corporate governance, the Company was awarded the 1st runner up prize in the 2004 Financial Reporting (FiRe) awards for excellence under the category of Corporate Citizenship.

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. The board has established a management structure which clearly defines roles and responsibilities. Delegated authorities are well communicated and documented.

Non-executive directors are encouraged to stay fully abreast of the Company's business through site and customer 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 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. The Board of Trustees, which includes a representation of employees, meets at least quarterly, 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. A retirement committee of the Board, chaired by a non executive director, ensures the effective management of the schemes.

Remuneration of Executive Director and Senior Management

A remuneration committee was established during the year with the aim of determining and making recommendations to the Board, on the remuneration policies of the company and the terms and conditions of employment of the executive director and senior management, in order 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 Board is satisfied that the risk management programme is adequate to effectively mitigate the significant risks faced by the company to an acceptable level.

An annual and three year strategic plan is prepared and approved by the Board of Directors.

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.

Corporate governance (continued)

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.

The Company is working towards an early adoption of the Sarbanes Oxley Act, 2002.

Safety, Health and Environmental Practices

The safety of our employees, customers, suppliers and our communities, and the protection of 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 BOC Group.

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.



Recognizing excellence in

- Financial Reporting
- Corporate Governance &
- Citizenship

For the third year, the company has had 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.

The Company employees continue to nurture partnership with the following children's homes:- 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).



Corporate governance (continued)

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. During the year all employees were trained on the new Code of Conduct of the BOC Group. The Code emphasises living our values, which are based on good governance principles of:

- Ethics and integrity
- Safety of all our stakeholders
- Customer focus
- Performance excellence
- Care for our environment
- Commitment to our community
- Our people make the difference

Shareholders' profile for the year ended 30 September 2004

Ownership structure

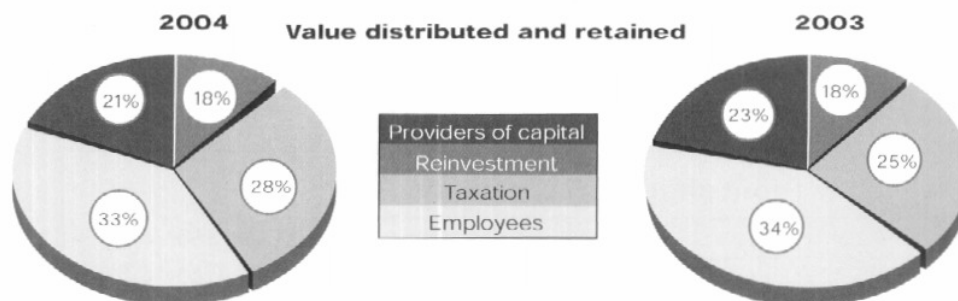
	Number of shareholders	Number of shares held	% of issued share capital
Foreign Investors	5	12,914,170	66.14
Local individual investors	516	1,909,393	9.78
Local institutional investors	166	4,692,876	24.03
East African individual investors	4	9,007	0.05
	<u>691</u>	<u>19,525,446</u>	<u>100</u>

Ten largest shareholders

	Number of shares held	% of issued shares capital
BOC Holdings	12,765,578	65.38
UAP Provincial Insurance Company Limited	986,967	5.05
Insurance Company of East Africa	455,812	2.33
Old Mutual Life Assurance Company Limited	288,456	1.48
Kenya Commercial Bank Nominees 'Account 769G'	212,608	1.09
Kenya Commercial Bank Nominees 'Account 744'	200,000	1.02
Stanbic Nominees Kenya Limited 'A/C SCKPF'	191,355	0.98
Barclays (Kenya) Nominees Limited 'Account 9230'	180,200	0.92
Barclays (Kenya) Nominees Limited 'Account 1256'	159,900	0.82
Barclays (Kenya) Nominees Limited 'Account 1853'	155,307	0.8
	<u>15,596,183</u>	<u>79.87</u>

Value distributed and retained

	2004 KShs'000	2003 KShs'000
Sales	830,675	728,720
Cost of materials, supplies and services	(417,970)	(351,884)
Value added	<u>412,705</u>	<u>376,836</u>
Employees (excluding PAYE)	138,021	129,495
Providers of capital	87,865	84,936
Taxation	114,566	94,722
Reinvestment (Retained profit + depreciation)	<u>72,252</u>	<u>67,683</u>
	<u>412,705</u>	<u>376,836</u>



Comparative results

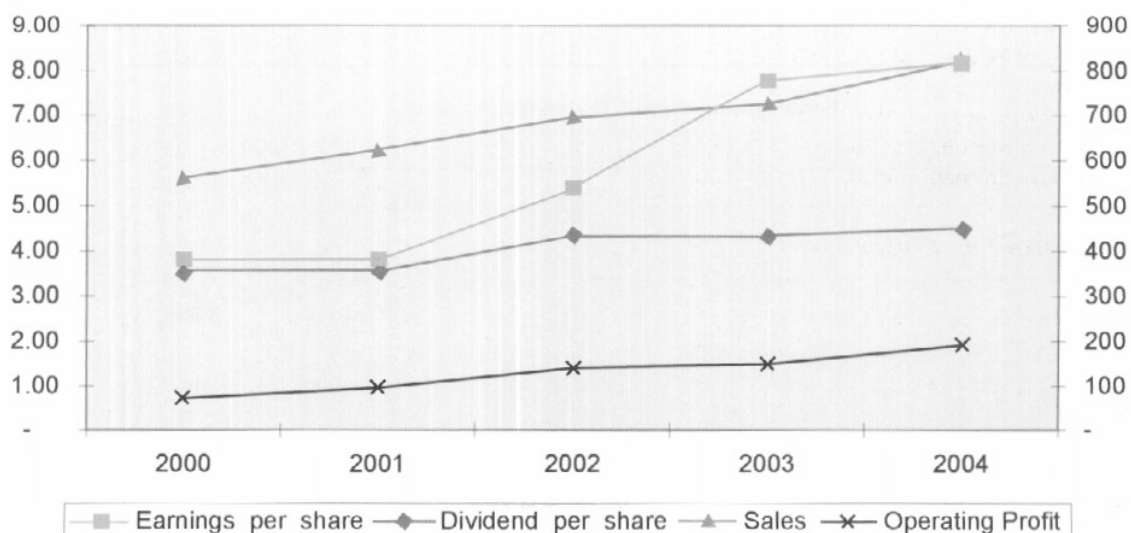
Financial review

	2000 KShs'000	2001 KShs'000	2002 KShs'000	2003 KShs'000	2004 KShs'000
Sale of goods	504,923	551,103	608,672	637,786	687,095
Revenue from services	57,018	73,883	88,833	90,934	143,580
Total income	561,941	624,986	697,505	728,720	830,675
Operating profit	73,413	96,777	136,535	148,675	189,324
Profit before tax	110,159	118,175	154,990	210,720	220,980
Net profit	74,715	75,050	105,491	152,619	160,117
Cash generated from operations	69,457	118,810	95,703	168,985	313,010

Earnings per share	3.83	3.84	5.40	7.82	8.20
Dividend per share	3.55	3.55	4.35	4.35	4.50

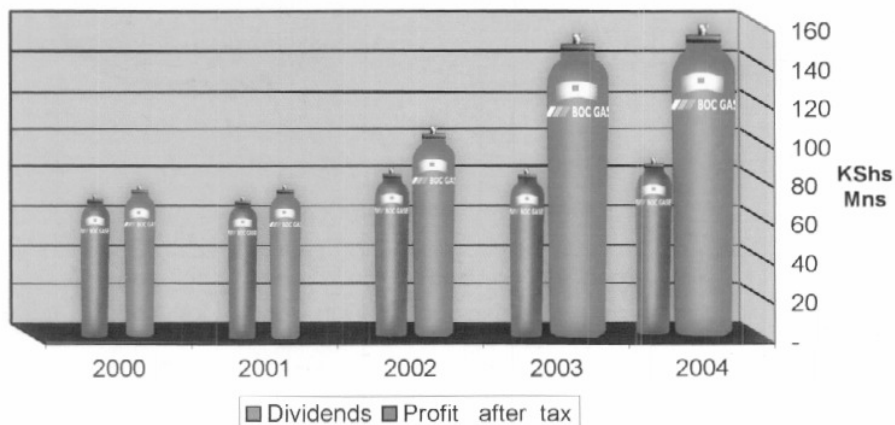
Shareholders' funds	980,671	986,406	1,006,873	1,009,479	1,076,803
Net assets	1,028,417	1,034,394	1,050,525	1,124,441	1,199,479
Capital expenditure	42,691	55,723	37,132	47,915	112,959
Contingent liabilities	6,717	10,411	9,050	9,918	18,411

Performance profile

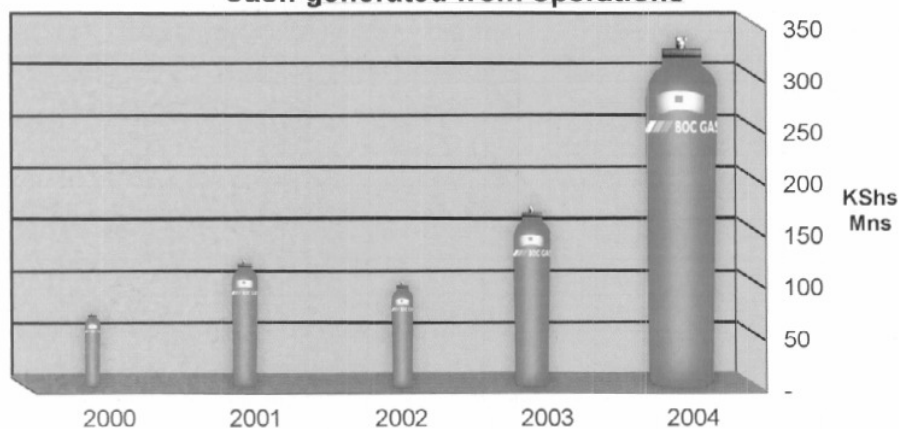


Comparative results (continued)

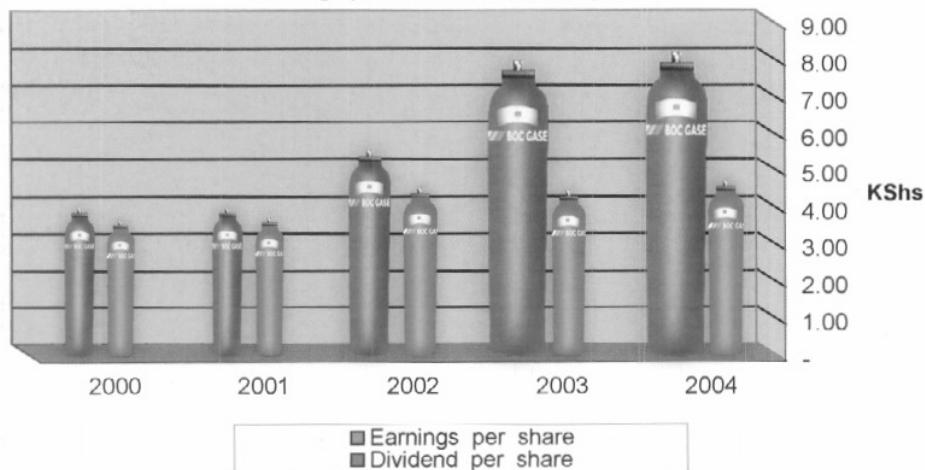
Profit after tax & Dividends



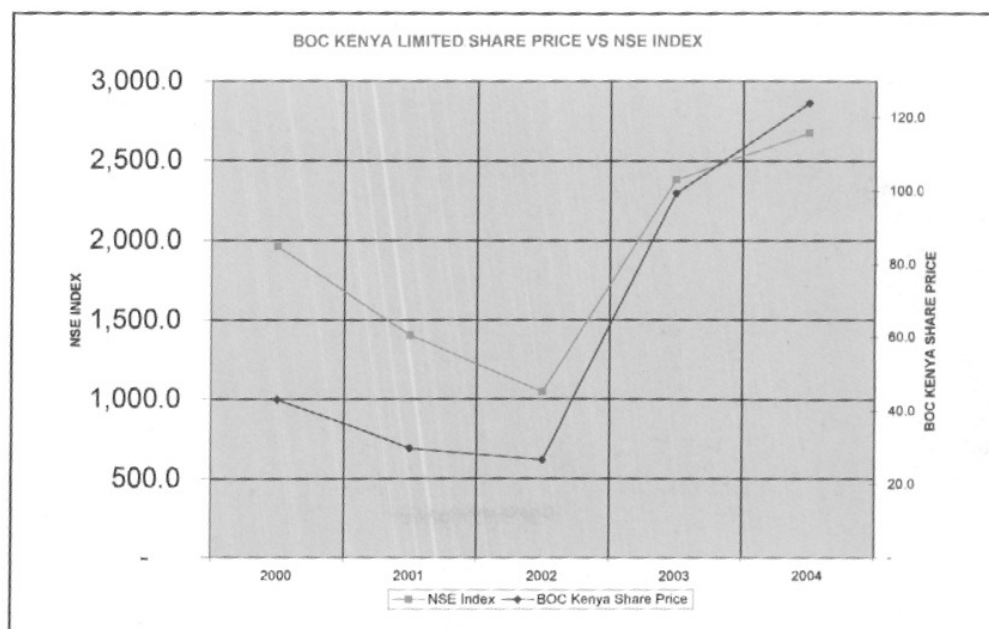
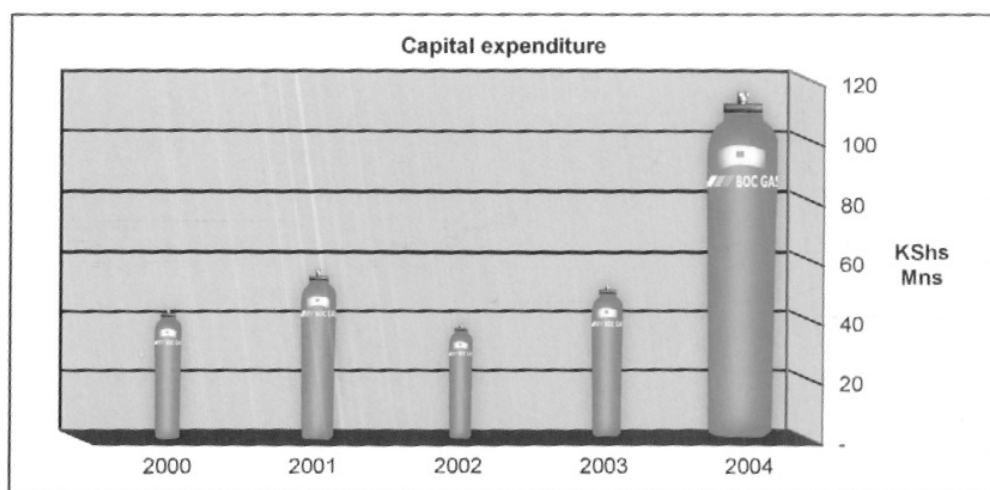
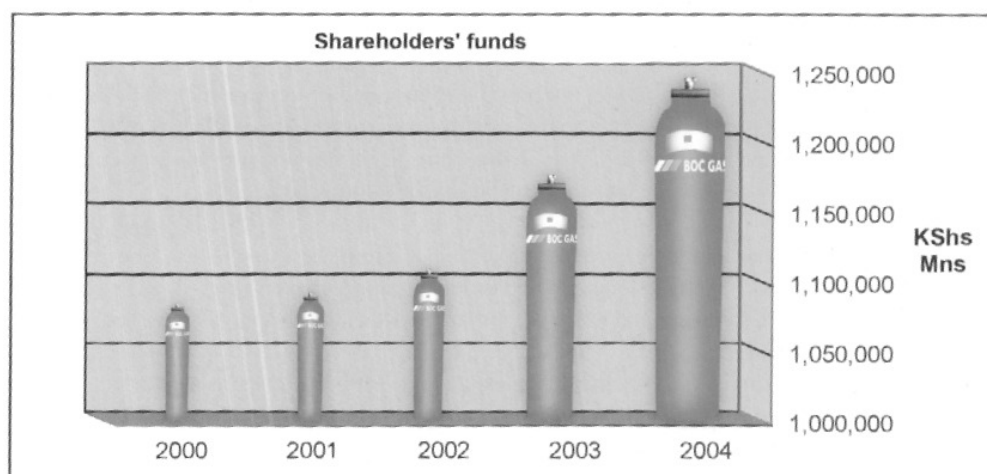
Cash generated from operations



Earnings per share & Dividends per share



Comparative results (continued)



ment of Directors' Responsibilities

Companies Act requires the directors to prepare consolidated financial statements for each financial year true and fair view of the state of affairs of the group and the company at the end of the financial year and .ting results of the group for that year. It also requires the directors to ensure the group and the company r accounting records, which disclose with reasonable accuracy at any time the financial position of the group mpany. They are also responsible for safeguarding the assets of the group.

ors accept responsibility for the annual consolidated financial statements, which have been prepared using te accounting policies supported by reasonable and prudent judgements and estimates, in conformity with nal Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the

consolidated financial statements give a true and fair view of the state of the financial affairs of the group and ,pany and of its operating results. The directors further accept responsibility for the maintenance of accounting that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial

g has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going rn for at least next twelve months from the date of this statement.

Kibe
ctor

J M Kariuki
Director

ovember 2004

Report of the Independent Auditors to the members of BOC Kenya Ltd

We have audited the financial statements of BOC Kenya Limited for the year ended 30 September 2004 set out on pages 18 to 36.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 16. 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.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and we believe our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and of the company as at 30 September 2004 and of the profit and cash flows of the group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act. The company's balance sheet is in agreement with the books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants

Nairobi

4 November 2004

Consolidated profit and loss account

	Notes	2004 Shs'000	2003 Shs'000
Sales	1	830,675	728,720
Cost of sales		(348,173)	(304,245)
Gross profit		482,502	424,475
Other operating income		3,548	18,233
Distribution costs		(87,128)	(78,272)
Administrative expenses		(201,129)	(204,078)
Other operating expenses		(8,469)	(11,683)
Group operating profit	2	189,324	148,675
Finance income	4	11,653	11,386
Dividend income	5	2,513	14,030
Fair value gain on investments	15	17,490	36,629
Operating profit before tax		220,980	210,720
Tax	6	(60,863)	(58,101)
Net profit		160,117	152,619
Earnings per share (Shs per share)			
- basic and diluted	7	8.20	7.82
Dividends			
Interim dividends - paid in the year	8	19,525	19,525
Proposed final dividends for the year	8	68,340	65,411
		87,865	84,936

Consolidated balance sheet

	Notes	2004 Shs'000	2003 Shs'000
CAPITAL EMPLOYED			
Share capital	9	97,627	97,627
Share premium	9	2,554	2,554
Revaluation surplus	10	121,993	124,001
Translation reserve		3,626	-
Retained earnings		859,223	784,963
Proposed dividends	8	68,340	65,411
Shareholders' funds		1,153,363	1,074,556
Non-current liabilities			
Deferred tax	11	46,116	49,351
Retirement benefit obligations	12	-	534
		46,116	49,885
		1,199,479	1,124,441
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13 (a)	587,974	524,927
Available-for-sale financial assets	15	78,540	61,050
Prepaid operating leases	16	4,441	4,536
Retirement benefit assets	12	1,309	-
		672,264	590,513
Current assets			
Inventories	17	157,377	159,590
Receivables and prepayments	18	218,774	260,068
Current tax		-	2,243
Held-to-maturity financial assets	19	367,493	273,344
Cash and bank balances	19	50,382	58,821
		794,026	754,066
Current liabilities			
Payables and accrued expenses	20	256,146	217,352
Current tax		10,665	2,786
		266,811	220,138
Net current assets			
		527,215	533,928
		1,199,479	1,124,441

The financial statements on pages 18 to 36 were approved for issue by the board of directors on 4 November 2004 and signed on its behalf by:

JG Kibe
Director

JM Kariuki
Director

Company statement of changes in equity

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 30 September 2003						
At start of year	97,627	2,554	125,616	712,279	65,411	1,003,487
Transfer of excess depreciation	-	-	(2,308)	2,308	-	-
Deferred tax on transfer	-	-	693	(693)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(1,615)	1,615	-	-
Net profit	-	-	-	158,252	-	158,252
Dividends:						
- Final for 2002 (paid)	-	-	-	-	(65,411)	(65,411)
- Interim for 2003 (paid)	-	-	-	(19,525)	-	(19,525)
- Proposed final for 2003	-	-	-	(65,411)	65,411	-
At end of year	97,627	2,554	124,001	787,210	65,411	1,076,803
Year ended 30 September 2004						
At start of year	97,627	2,554	124,001	787,210	65,411	1,076,803
Transfer of excess depreciation	-	-	(2,868)	2,868	-	-
Deferred tax on transfer	-	-	860	(860)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(2,008)	2,008	-	-
Net profit	-	-	-	150,255	-	150,255
Dividends:						
- Final for 2003 (paid)	-	-	-	-	(65,411)	(65,411)
- Interim for 2004 (paid)	-	-	-	(19,525)	-	(19,525)
- Proposed final for 2004	-	-	-	(68,340)	68,340	-
At end of year	97,627	2,554	121,993	851,608	68,340	1,142,122

Consolidated cash flow statement

	Notes	2004 Shs'000	2003 Shs'000
Operating activities			
Cash generated from operations	23	313,010	179,227
Interest paid		(8)	(179)
Tax paid		(53,976)	(54,468)
Net cash generated from operating activities		259,026	124,580
Investing activities			
Purchase of property, plant and equipment		(100,450)	(47,915)
Proceeds from disposal of property, plant and equipment		1,563	15,361
Interest received	4	7,994	11,667
Dividends received	5	2,513	14,030
Net cash used in investing activities		(88,380)	(6,857)
Financing activities			
Dividends paid		(84,936)	(84,936)
Net cash used in financing activities		(84,936)	(84,936)
Increase in cash and cash equivalents		85,710	32,787
Movement in cash and cash equivalents			
At start of year		332,165	299,378
Increase		85,710	32,787
At end of year	19	417,875	332,165

Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of BOC Kenya Limited have been prepared in accordance and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of buildings and the carrying of available-for-sale financial assets at fair values.

The preparation 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.

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.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Revenue recognition

Revenue is recognised as follows:

Sale of goods and services

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

Interest income

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

Dividend income

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

Accounting policies (continued)

(d) Segment reporting

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

(e) Translation of foreign currencies

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

The profit and loss accounts 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. The resulting difference from conversion and translations are recognised as a separate component of equity.

(f) Accounting for leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the 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) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at market value, based on 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 a straightline basis to write down the costs of each asset to residual value over their estimated useful life as follows:

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. Capital work in progress represents assets that are under construction or that are not immediately available for use.

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 surplus relating to such assets are transferred to retained earnings.

(h) Investments

The Group classifies its investments into the following categories:

- i) held-to-maturity investments; and
- ii) available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Accounting policies (continued)

(i) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date which are classified as current assets.

Held to maturity investments are carried at amortized cost using the effective interest method and are included in the profit and loss account in the year in which they arise.

(ii) Available-for-sale financial assets

Other investments 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.

Purchases and sales of 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.

(i) **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.

(j) **Trade receivables**

Trade receivables are carried at amortised cost 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.

(k) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(l) **Employee entitlements**

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 and state security scheme, are charged to the profit and loss account in the year to which they relate.

Accounting policies (continued)

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.

Other post-employment obligations

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.

(m) 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.

(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.

(o) 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

1 Segment information Primary reporting format - Geographical segments

Year ended 30 September 2004

	Kenya Shs'000	Region Shs'000	Group Shs'000
Sale of goods	660,288	79,412	739,700
Revenue from services	143,580	-	143,580
Total Sales	803,868	79,412	883,280
Inter-segment sales	(52,605)	-	(52,605)
Net sales	751,263	79,412	830,675
Operating profit	209,447	11,533	220,980
Non-current assets	627,548	44,716	672,264
Current assets	675,958	118,068	794,026
Total segment assets	1,303,506	162,784	1,466,290
Segment liabilities	259,662	7,149	266,811

Year ended 30 September 2003

Sale of goods	615,375	70,657	686,032
Revenue from services	90,934	-	90,934
Total sales	706,309	70,657	776,966
Inter-segment sales	(48,246)	-	(48,246)
Net sales	658,063	70,657	728,720
Operating profit	211,184	(464)	210,720
Non-current assets	571,544	18,969	590,513
Current assets	692,225	61,841	754,066
Total segment assets	1,263,769	80,810	1,344,579
Segment liabilities	219,948	190	220,138

Sales revenue is based on the country in which the sale took place. Total assets are shown by the geographical area in which the assets are located. Both geographical segments are involved in the sale of industrial and medical gases, and welding products. BOC Kenya Limited is involved in manufacture of the industrial and medical gases

Notes forming part of the financial statements (continued)

The following items have been charged/(credited) in arriving at operating profit
Year ended 30 September 2004

	Kenya Shs'000	Region Shs'000	Group Shs'000
Depreciation on property, plant and equipment	46,790	3,072	49,862
Amortisation of operating leases	95	-	95
Impairment of trade receivables	10,295	6,863	17,158
Impairment of inventory	11,161	-	11,161

Year ended 30 September 2003

	Kenya Shs'000	Region Shs'000	Group Shs'000
Depreciation on property, plant and equipment	31,286	1,316	32,602
Amortisation of operating leases	56	-	56
Impairment of trade receivables	27,380	2,184	29,564
Impairment of inventory	1,197	-	1,197

Secondary Segment-Business segment,

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 Group operating profit

Other items that have been charged in arriving at group operating profit:

	2004 Shs'000	2003 Shs'000
Repairs and maintenance expenditure on property, plant and equipment	13,582	9,628
Profit on disposal of property, plant and equipment	1,513	3,350
Staff costs (Note 3)	138,021	129,495
Auditors' remuneration	2,449	2,300

3 Staff costs

The following items are included within staff costs:

	2004 Shs'000	2003 Shs'000
Social security benefits	387	393
Retirement benefits costs:		
- defined contribution scheme	1,285	1,138
- defined benefit scheme (Note 12)	4,963	5,159

The number of persons employed by the company at the end of the year was 168 (2003: 172):

4 Finance income

	2004 Shs'000	2003 Shs'000
Interest expense on bank overdrafts	(8)	(179)
Interest income	7,994	11,667
Net foreign currency exchange gain / (loss)	3,667	(102)
	11,653	11,386

5 Dividend income

	2004 Shs'000	2003 Shs'000
Dividend income	2,513	14,030

Dividend income represents an interim dividend from investment in the shares of a company that is quoted on the Nairobi Stock Exchange (Note 15)

Notes forming part of the financial statements (continued)

6 Tax

	2004 Shs'000	2003 Shs'000
Current tax	67,610	50,316
Deferred tax (Note 11)	(3,235)	7,785
Overprovision of current tax in prior years	(3,512)	-
	<u>60,863</u>	<u>58,101</u>
The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	220,980	210,720
Tax calculated at a tax rate of 30% (2003: 30%)	66,294	63,216
Tax effect of:		
Income not subject to tax	(6,667)	(15,494)
Expenses not deductible for tax purposes	4,748	10,379
Overprovision of current tax in prior years	(3,512)	-
Tax charge	<u>60,863</u>	<u>58,101</u>

7 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to shareholders with the weighted average number of ordinary shares outstanding during the period.

	2004 Shs '000	2003 Shs '000
Net profit attributable to shareholders	160,117	152,619
Weighted average number of ordinary shares in issue	19,525	19,525
Basic earnings per share (Shs)	<u>8.20</u>	<u>7.82</u>

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 3 February 2005, a final dividend in respect of the year ended 30 September 2004 of Shs 3.50 per share (2003: Shs 3.35 per share), amounting to a total of Shs 68,340,000 (2003: Shs 65,411,000) is to be proposed. During the year, an interim dividend of Shs 1.00 per share (2003: Shs 1.00 per share), amounting to a total of Shs 19,525,000 (2003: Shs 19,525,000) was paid. The total dividend for the year is therefore Shs 4.50 per share (2003: Shs 4.35), amounting to a total of Shs 87,865,000 (2003: Shs 84,936,000).

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 2003 and 2004	<u>19,525</u>	<u>97,627</u>	<u>2,554</u>

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 up.

10 Revaluation reserves

Revaluation reserves relate to surplus arising on revaluation of the company's buildings and 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% (2003: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
At start of year	49,351	41,566	48,057	40,091
(Credit)/ Charge to profit and loss account (Note 6)	(3,235)	7,785	(1,576)	7,966
At end of year	46,116	49,351	46,481	48,057

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

(a) Group

	1.10.2003 Shs'000	Charged/ (credited) to P/L Shs'000	30.09.2004 Shs'000
Deferred tax liabilities			
Accelerated tax depreciation			
- on historical cost	14,578	(2,876)	11,702
- on revaluation	37,200	(860)	36,340
Unrealised exchange gains	227	17	244
	52,005	(3,719)	48,286
Deferred tax assets			
Provisions	(2,548)	378	(2,170)
Tax losses carried forward	(106)	106	-
	(2,654)	484	(2,170)
Net deferred tax liability	49,351	(3,235)	46,116

(b) Company

	1.10.2003 Shs'000	Charged/ (credited) to P/L Shs'000	30.09.2004 Shs'000
Deferred tax liabilities			
Accelerated tax depreciation			
- on historical cost	13,178	(1,340)	11,838
- on revaluation	37,200	(860)	36,340
Unrealised exchange gains	227	1,180	1,407
	50,605	(1,020)	49,585
Deferred tax assets			
Provisions	(2,548)	(556)	(3,104)
Net deferred tax liability	48,057	(1,576)	46,481

Deferred tax of Shs 860,000 (2003: Shs 693,000) for both the group and the company was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation buildings and the equivalent depreciation based on the historical cost of the buildings.

Notes forming part of the financial statements (continued)

12 Retirement benefit obligations - Group and Company

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

	2004 Shs'000	2003 Shs'000
Present value of funded obligations	169,894	160,162
Fair value of scheme assets	183,434	164,346
Present value of over funded obligations	(13,540)	(4,184)
Unrecognised actuarial gains	12,231	4,718
(Asset)/Liability in the balance sheet	(1,309)	534

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

	2004 Shs'000	2003 Shs'000
Current service cost	5,107	5,365
Interest cost	14,400	11,381
Expected return on plan assets	(14,544)	(11,587)
Net charge for the year included in staff costs	4,963	5,159
Contributions paid	(6,806)	(6,711)
Movement in the liability/ (asset) recognised in the balance sheet	(1,843)	(1,552)

The actual return on scheme assets was Shs 21,142,000 (2003: Shs 37,636,000)

The principal actuarial assumptions used were as follows:

	2004	2003
discount rate	9%	9%
expected return on scheme assets	9%	9%
future salary increases	7%	7%
future pension increases	0%	0%

The asset arising from the valuation of the scheme has been recognised as the directors are of the opinion that future economic benefits arising from the asset will flow into the group.

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	197,727	355,508	235,452	60,181	4,053	852,921
Additions	3,784	34,785	27,785	6,756	39,849	112,959
Disposals	-	(7,617)	(124)	-	-	(7,741)
Transfers	4,317	10,344	6,229	2,831	(23,721)	-
At end of year	205,828	393,020	269,342	69,768	20,181	958,139
Depreciation						
At start of year	(4,594)	(205,967)	(65,875)	(51,558)	-	(327,994)
Charge for the year	(5,330)	(30,873)	(9,012)	(4,647)	-	(49,862)
On disposals	-	7,617	74	-	-	7,691
At end of year	(9,924)	(229,223)	(74,813)	(56,205)	-	(370,165)
Net book amount						
At 30 September 2004	195,904	163,797	194,529	13,563	20,181	587,974
At 30 September 2003	193,133	149,541	169,577	8,623	4,053	524,927

Notes forming part of the financial statements (continued)

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	200,055	340,939	225,924	59,159	4,082	830,159
Additions	3,784	34,780	2,339	6,743	36,494	84,140
Disposals	-	(7,617)	(124)	-	-	(7,741)
Transfers	4,317	10,344	4,291	2,831	(21,783)	-
At end of year	208,156	378,446	232,430	68,733	18,793	906,558
Depreciation						
At start of year	(4,281)	(204,020)	(64,782)	(51,178)	-	(324,261)
Charge for the year	(5,157)	(29,921)	(8,197)	(3,515)	-	(46,790)
On disposals	-	7,617	74	-	-	7,691
At end of year	(9,438)	(226,324)	(72,905)	(54,693)	-	(363,360)
Net book amount						
At 30 September 2004	198,718	152,122	159,525	14,040	18,793	543,198
At 30 September 2003	195,774	136,919	161,142	7,981	4,205	505,898

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.

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

	2004 Shs'000	2003 Shs'000
Cost	81,825	75,727
Accumulated depreciation	(4,660)	(2,003)
Net book amount	77,165	73,724

14 Investment in subsidiaries

	Percentage shareholding	2004 Shs'000	2003 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.

Kivuli Limited is incorporated in Kenya and has been consolidated into the financial statement as it holds certain investments on behalf of BOC Kenya Limited. BOC Tanzania Limited and BOC Uganda Limited are incorporated in Tanzania and Uganda respectively.

Notes forming part of the financial statements (continued)

15 Available-for-sale financial assets

	Group	
	2004 Shs'000	2003 Shs'000
At start of year	61,050	24,421
Fair value gain	17,490	36,629
At end of year	78,540	61,050

Available-for-sale financial assets represent the group's investment in the shares of a quoted company with a historical cost of Shs 33,621,000

16 Prepaid operating leases - Group and Company

	2004 Shs'000	2003 Shs'000
Leases expiring beyond five years		
At start of year	4,536	4,592
Amortisation for the year	(95)	(56)
At end of year	4,441	4,536

17 Inventories

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
Raw materials	24,193	13,313	24,193	13,313
Finished goods and other saleable stock	65,618	79,532	38,386	58,869
Plant spares	34,788	51,385	31,855	48,509
Goods in transit	31,847	12,995	31,836	12,926
Work in progress	931	2,365	931	2,365
	157,377	159,590	127,201	135,982

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
18 Receivables and prepayments				
Trade receivables	196,662	255,938	157,500	227,093
Less: Provision for impairment	(30,018)	(61,378)	(24,158)	(57,385)
	166,644	194,560	133,342	169,708
Staff debtors	17,872	21,956	17,726	22,223
Prepayments	692	620	456	305
Receivables from related companies (Note 24)	2,955	4,196	223,043	171,119
Other receivables	30,611	38,736	34,016	6,916
	218,774	260,068	408,583	370,271

19 Cash and cash equivalents

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

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
Cash at bank and in hand	50,382	58,821	39,533	51,251
Held-to-maturity financial assets	367,493	273,344	323,930	273,344
	417,875	332,165	363,463	324,595

Notes forming part of the financial statements (continued)

19 Cash and cash equivalents (continued)

The weighted average effective interest rate on short-term bank deposits at year-end was 3.3 % (2003: 1.8 %). Held-to-maturity financial assets relate to funds deposited in banks and other financial institutions that are due on demand or have a maturity period of less than three months.

20 Payables and accrued expenses

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
Cylinder deposits	85,859	100,413	82,765	98,496
Trade payables	84,633	64,391	82,224	63,004
Amounts due to related companies (Note 24)	35,061	17,184	35,061	17,184
Unrealised interest on trade receivables	-	6,139	-	6,139
Accruals and other payables	50,593	29,225	50,711	28,339
	<u>256,146</u>	<u>217,352</u>	<u>250,761</u>	<u>213,162</u>

21 Contingent liabilities

At 30 September 2004 the company had given guarantees amounting to Shs 18,411,000 (2003: Shs 9,918,000) on behalf of third parties.

There are certain pending legal claims brought against the company as at 30 September 2004 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 in these financial statements.

The company also has a contingent liability arising from a self-assessment performed on the company for compliance with various tax regulations. The potential liability arises from an interpretation of certain aspects of tax legislation, which the directors are of the opinion will not crystallize.

22 Capital commitments

At 30 September 2004 the company had outstanding capital commitments amounting to Shs 37,000,000 (2003: Shs 32,400,000).

23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2004 Shs'000	2003 Shs'000
Profit before tax	220,980	210,720
Adjustments for: Depreciation (Note 13 (a))	49,862	32,602
Amortisation of operating leases	95	56
Profit on sale of property, plant and equipment	(1,513)	(3,350)
Fair value gain on investments	(17,490)	(36,629)
Effect of currency translation on investment in subsidiaries	3,626	(10,242)
Interest income (Note 4)	(7,994)	(11,667)
Interest expense (Note 4)	8	179
Dividend income (Note 5)	(2,513)	(14,030)
Changes in working capital:		
-receivables and prepayments	41,294	(2,940)
-inventories	(10,296)	4,515
-payables and accrued expenses	38,794	(8,919)
-retirement benefits liabilities	(1,843)	(1,552)
Cash generated from operations	<u>313,010</u>	<u>179,227</u>

Notes forming part of the financial statements (continued)

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. The following transactions were carried out with related parties:

i) Services incurred on behalf of other related parties

	2004 Shs'000	2003 Shs'000
BOC Malawi Limited	-	460
BOC Zambia Limited	1,371	638
BOC Zimbabwe Limited	-	398
BOC Nigeria Limited	273	1,261
	<u>1,644</u>	<u>2,757</u>

ii) Purchase of goods and services from related parties

BOC Group plc	21,747	10,365
Afrox Limited	75,341	40,538
Cryostar - France	4,378	735
BOC Zambia Limited	1,237	572
	<u>102,703</u>	<u>52,210</u>

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

iii) Outstanding balances included in receivables

	2004 Shs'000	2003 Shs'000
BOC Malawi Limited	147	923
BOC Zambia Limited	759	640
BOC Zimbabwe Limited	-	398
BOC Nigeria Limited	2,049	2,235
	<u>2,955</u>	<u>4,196</u>

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

	2004 Shs'000	2003 Shs'000
BOC Group plc	11,984	5,334
Afrox Limited	22,155	11,452
Cryostar - France	922	398
	<u>35,061</u>	<u>17,184</u>

v) Directors' remuneration

- fees	1,719	1,677
- management	12,308	20,735
	<u>14,027</u>	<u>22,412</u>