



BOC GASES
BOC KENYA LIMITED

CMA-LIBRARY

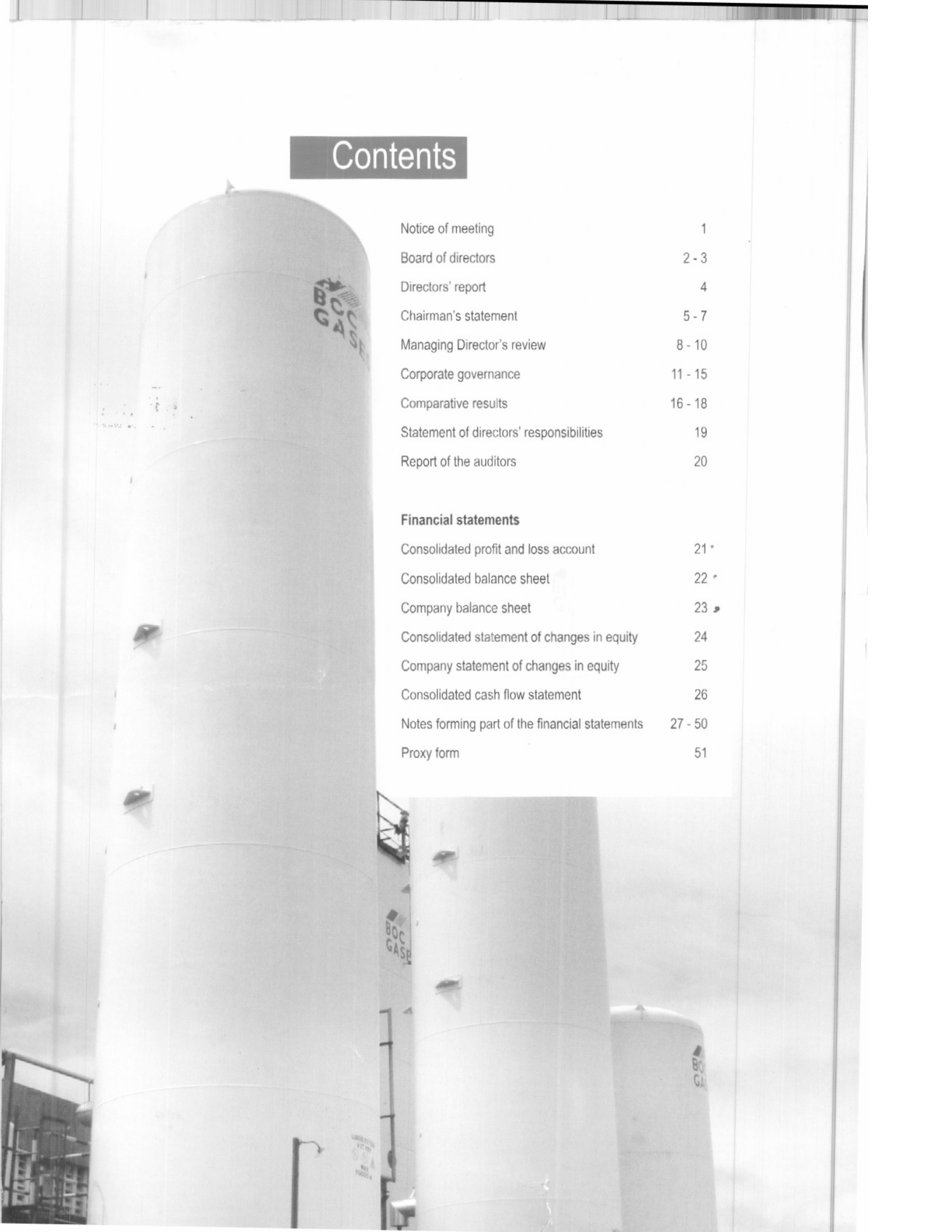
2006



ANNUAL REPORT AND FINANCIAL STATEMENTS

HD
9660
.9373
B 365
2006
C.3

Delivering today. building for tomorrow



Contents

Notice of meeting	1
Board of directors	2 - 3
Directors' report	4
Chairman's statement	5 - 7
Managing Director's review	8 - 10
Corporate governance	11 - 15
Comparative results	16 - 18
Statement of directors' responsibilities	19
Report of the auditors	20

Financial statements

Consolidated profit and loss account	21 *
Consolidated balance sheet	22 *
Company balance sheet	23 *
Consolidated statement of changes in equity	24
Company statement of changes in equity	25
Consolidated cash flow statement	26
Notes forming part of the financial statements	27 - 50
Proxy form	51

Notice of Annual General Meeting 2006

Notice is hereby given that the Sixty Sixth Annual General Meeting of BOC Kenya Limited will be held at The Stanley, Ballroom, on Thursday, 18 January 2007 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 2006 together with the directors' and auditors reports therein.
- (b) To declare a dividend.
- (c) To hold directors' elections
 - (i) Mr Joseph Gilbert Kibe who is over 70 years of age, retires as a director in line with section 186 (5) of the Companies Act at the next Annual General Meeting, and being eligible, offers himself for re-election.
 - (ii) Mr Jonathan Narayadoo, who was appointed as a director of the company with effect from 1 November 2006, retires, in terms of clause 98 of the Company's Memorandum of Association and being eligible, offers himself for re-election.
 - (iii) To elect Mr Amien Nanabhay as a non-executive director of the company with effect from 18 January 2006.
 - (iv) To re-elect Mr Ngugi Kiuna who retires by rotation under clause 93 of the Company's Articles and Memorandum of Association and being eligible, offers himself for re-election.
 - (v) To re-elect Mr Michael Guy Rowell who retires by rotation under clause 93 of the Company's Articles and Memorandum of Association and being eligible, offers himself for re-election.
- (d) To authorise the directors to fix the remuneration of the auditors for the year ended 30 September 2006.
- (e) To approve the remuneration of the directors for the year ended 30 September 2006.
- (f) Any other business, which may legally be transacted at an Annual General Meeting.



Special Business

- (a) To note and approve the change of the company's year-end from 30 September to 31 December in line with The Linde Group's year end. With effect from 6 September 2006, Linde took effective control of The BOC Group. As a result of this, BOC Kenya Limited is required to change its year end to 31 December to be in line with Linde's year end.

BY ORDER OF THE BOARD

Ms J N Ongegu
Company Secretary

Kitui Road
P O Box 18010, 00500
NAIROBI

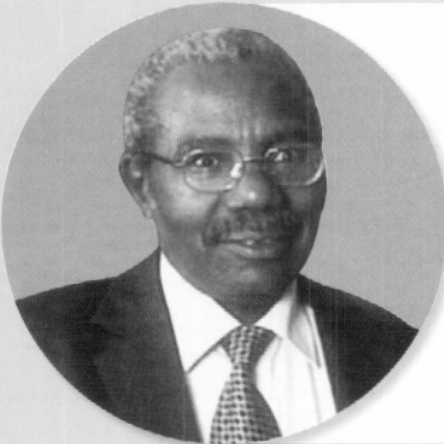
28 November 2006



HD
9660
6373
B 635
2006
C13

1. BOC Kenya Limited -- periodicals

Board of Directors



JOSEPH GILBERT KIBE - **CHAIRMAN**

Joe Kibe is a BA graduate of London University through Makerere College. He 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 reknown businessman and farmer. He was appointed a non-executive director of BOC Kenya Limited in August 1991 and, in February 2000, was appointed Chairman of the Board of BOC Kenya Limited.



JOHN MUNGAI KARIUKI - **MANAGING DIRECTOR**

John Kariuki was appointed Managing Director on 2 October 2003 and 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. He 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.

2007/0772



MICHAEL GUY ROWELL

Michael Rowell is a Chartered Secretary and holds governance and investment management diplomas. He joined The BOC Group in South Africa in February 2000 as Company Secretarial Manager for African Oxygen Limited (Afrox) and subsequently was appointed Company Secretary.

He is currently the Financial & Administration Manager of BOC's African Operations and holds a number of directorships in other BOC and Afrox African Operations. He was previously employed at BTR Dunlop and the Alexander Forbes Group.

Board of Directors



ALFRED C JUMA

Alfred Juma is a BA (Hons) graduate of London University through Makerere College. He was previously the Managing Director of Avon Rubber Company (Kenya) Limited and has held the Chairmanship 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. He was recently appointed the Chairman of the Kenya Roads Board.



ALAN JONES

Alan Jones joined The BOC Group in Nairobi, Kenya in 1958 as a trainee and has served in Kenya, Uganda, Zimbabwe and South Africa. At the time of his retirement, Alan was the General Manager of the Northern Region of African Oxygen Limited (Afrox), based in Germiston, South Africa. Alan was educated in Kongwa, Tanzania. In his 45 years of service in The BOC Group, he has held senior and executive management positions in Kenya, Zimbabwe and South Africa.



NGUGI KIUNA

Ngugi Kiuna is a holder of a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England. He has been the Managing Director of Johnson East Africa Limited until July 2006. He was appointed a non-executive director of BOC Kenya Limited in October 1993.



ROBERT DUNCAN CLARKE

Rob Clarke is a Chartered Accountant (S.A) and has 20 years experience in African Oxygen Limited (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, Afrox, a position that he held for 6 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. He holds a number of directorships in other African operations of The BOC Group.

Report of the Directors

for the year ended 30 September 2006

The directors submit their report together with the audited financial statements for the year ended 30 September 2006, which disclose the state of affairs of the group and company.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Shs 225,940,000 (2005: Shs 207,446,000) has been added to retained earnings. A special dividend of Shs 5.80 amounting to Shs 113,245,000 was declared on 3 April 2006 and paid on 28 April 2006. During the year an interim dividend of Shs 24,406,000 (2005: Shs 24,406,000) was paid. The directors recommend the approval of a final dividend of Shs 82,982,000 (2005: Shs 82,982,000).

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 G Rowell	

In accordance with Article 93 of the company's Articles of Association, Messrs N Kiuna and M Rowell retire by rotation and being eligible, offer themselves for re-election. Mr R D Clarke resigned as company director on 1 November 2006 and Mr J Narayadoo was appointed to replace him on the same date.

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
1 November 2006

Chairman's Report

Economic Overview

The Kenyan economy continued to show a steady improvement with a GDP growth of 5.8% in 2005 and a projection of 6% in 2006. This growth was spurred by robust performance in the tourism, communication, manufacturing, construction and transport sectors of the economy. Inflation has been on the rise mainly due to high international crude oil prices although the strong shilling against the US dollar has mitigated its full effect. Another positive element on the economic front was that lending rates have generally been stable throughout the year thus ensuring predictability especially for organisations wishing to borrow to fund their long-term expansion programmes.

However, on the regional economic front, performance was hampered significantly by the shortage and high cost of power due to the switch from traditional hydro - generated power to fuel generated power. The general output from companies operating in Uganda and Tanzania was limited by the availability of power and as such impacted negatively on their ability to purchase more consumables for use in their production runs.

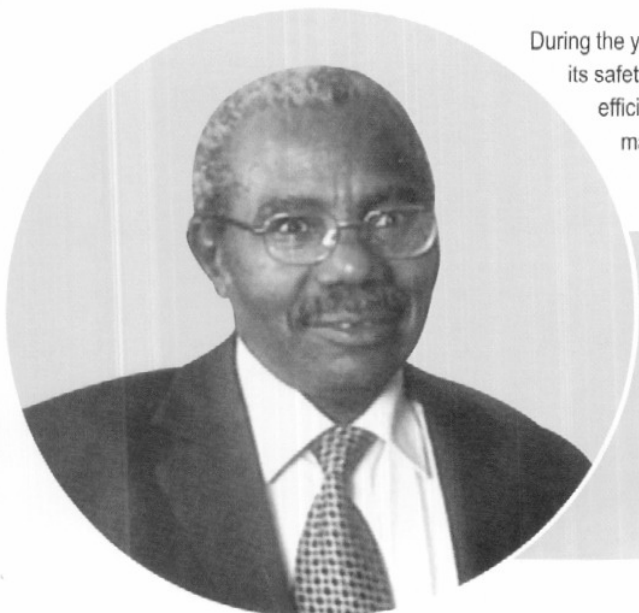
Looking at the future, we foresee a stronger Kenyan economy spurred by continued growth in key sectors in the economy, especially as the government puts in more resources into rehabilitating the infrastructure with a view to developing the country into an attractive investment destination. On the regional front economic recovery is expected to be slow due to the time expected for the power problem to be resolved.

Company Results

During the year, the Group recorded a 12% and 15% growth in turnover and operating profit, respectively. The growth in turnover was supported by the continued economic recovery in the sectors that we service and improved sales from new products that were launched into the market towards the end of the 2005 financial year. Our subsidiary companies in Uganda and Tanzania continue to record appreciable growth, which reflects the market potential in those countries. The performance of the subsidiaries has however, been impacted negatively by the ongoing power rationing in Uganda and Tanzania.

In spite of increased production costs, especially power, which went up 18% during the year and spiralling fuel costs, the company produced a healthy return. Continued focus on initiatives to improve operational efficiencies has helped to mitigate the increased costs of production.

During the year the company invested Shs 106 million to meet its expansion plan, build on its safety, health, environment and quality (SHEQ) programme, sustain its operational efficiencies and replace aging equipment. The continued focus on working capital management has ensured that the Group continues to fund its investment



“During the year, the company recorded a 12% and 15% growth in turnover and operating profit, respectively”

Chairman's Report (cont'd)

programme through internally generated resources. This year the Group grew its cash and short-term investment balances by 4% to close at an impressive amount of Shs 458 million, even after spending Shs 106 million on capital projects.

The Board would like to assure the shareholders that it will continuously monitor all cash balances within the group to ensure that they are utilised effectively and that any future gearing will be taken once internally generated resources are exhausted.

In the year a total dividend of Shs 11.30, inclusive of the interim dividend of Shs 1.25 and a special of Shs 5.80 per share has been declared. This represents an increase of 105% over the previous year level.

Court Case

The directors are pleased to report that the three company officials who were on a criminal case involving company gas cylinders in 2003 won their appeal at the High Court, which lifted the earlier conviction and sentence on 4 October 2006.

Corporate Governance

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

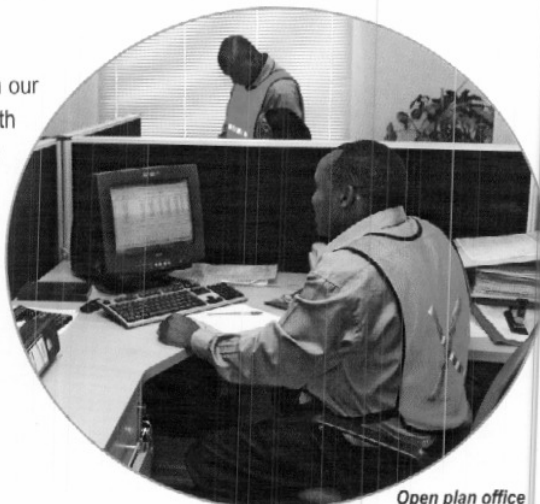
The directors are ultimately accountable to all stakeholders for ensuring that the Group's business is conducted in accordance with high standards of corporate governance. The role of the Board is to assist in determining the Group's direction and strategy, monitor the achievement of the business objectives, ensure the Group meets its responsibilities to its shareholders and that the control environment mitigates against risk exposures.

The Board and the management are committed to upholding the standards of good corporate citizenship. The Board, which comprises six non-executive directors and one executive director, continues to provide the necessary leadership to the Group. The directors' possess diverse skill, management and business experience and competencies required to effectively oversee the smooth running of the Group.

Our People

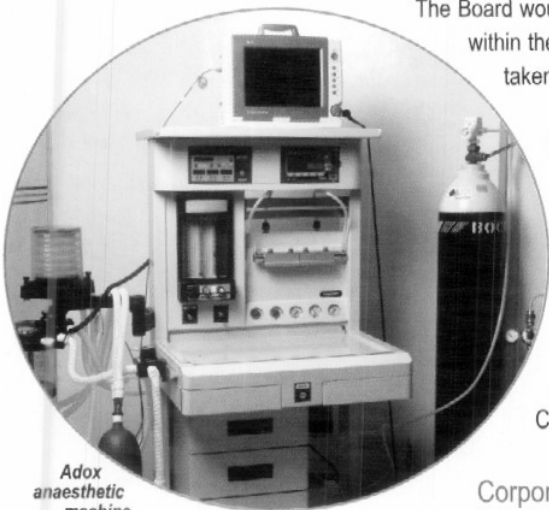
The Group values its human capital and as such we continue to invest in our people. We continue to empower our people through focused training both within and out of the country. The Group as a policy continuously assesses its human capital for potential gaps and works with the employees to ensure that such gaps are filled through the necessary exposures.

The employees have access to the Group's online training facility, the Integrated Management Systems and Standards (IMSS) that standardises training materials designed for specific roles within the Group.



Open plan office

*Adox
anaesthetic
machine*



Chairman's Report (cont'd)

During the year the Group participated in the Company of the Year Award (COYA) competition and won the Human Resources Management award under the manufacturing sector category where it competed with over 50 companies.

Acquisition of Carbacid Investment Limited

As part of the Group's growth programme to venture into the carbon dioxide business, the company made an offer to the shareholders of Carbacid Investment Limited to acquire its entire equity. However due to certain regulatory issues, we were not able to complete the transaction within the set out time frame.

This matter is currently before the Capital Markets Tribunal. The Company has appealed against the stand taken by the Capital Markets Authority and is awaiting the outcome. We believe the matter will be resolved in the near future.

Linde / BOC merger

CMA-LIBRARY

As from 6 September 2006, Linde took effective control of The BOC Group to form the Linde Group, the largest industrial gases and engineering company in the world. The Linde Group now has more than 53,000 employees working in 70 countries on all continents. The vision and mission of the combined companies is to leverage the best of BOC and Linde in order to drive sustainable profitable growth and create value for our stakeholders whilst staying focused on our customers, our people and safety.

The Future

The Board and management are confident about the continued growth of the business into the future. I am pleased to inform you that the company will continue to identify and take advantage of those opportunities that drive growth in shareholder value. We will continue to focus on new growth areas as we strive to provide quality products and services to our customers.

Mr R D Clarke who was a director resigned on 1 November 2006 and in his place, Mr Jonathan Narayadoo was appointed on the same day. I wish Mr Clarke success in his new role in African Oxygen Company Limited and thank him for his contribution to our Company's growth. I would also like to take this opportunity to welcome Mr Narayadoo to our board and look forward to his contribution.

Appreciation

I would like to thank my fellow directors who have continued to provide their leadership and support towards the oversight of your company. I would also like to thank the management team and the employees for their hard work over the year and the continued delivery of impressive results and their commitment to high customer service standards.

In conclusion, I would also like to thank our esteemed customers, suppliers and agents for their business relationship.

J G Kibe

Chairman

1 November 2006



Safety gear

Managing Director's Report

Economic Review And Trading Results

BOC Kenya Limited delivered impressive results against a backdrop of steady economic growth in key sectors that we service especially in Kenya. The Group benefited from sales to the manufacturing, construction, mining, transport, tourism and communication sectors all of which were thriving due to a better than expected growth in GDP of 5.8% realised during the year. During the year to 30 September 2006, sales grew by 12% to close at Shs 1,109 million, while operating profit, at Shs 301 million, was 15% over the previous year. This performance was achieved despite the challenges arising from high international crude prices, high costs and an unreliable power supply in the region, especially in Uganda and Tanzania.

Driving our growth agenda is the continued focus on new products in the market. Towards the end of the last financial year, we introduced the "Miller" range of products, which has been well received in the market. We have realised growth in sales across the region especially in the heavy engineering business. Further, we also realised an impressive growth in the bulk LPG business across the country. We continue to leverage on our strong safety work ethic and principles to grow our LPG business even further. The special gases range of products also realised an appreciable growth mainly driven by improved sales to the beverage and fishing industries. Our entry into the wider range of safety products and personal protective equipment has been well received by our customers and we see this as another growth area.

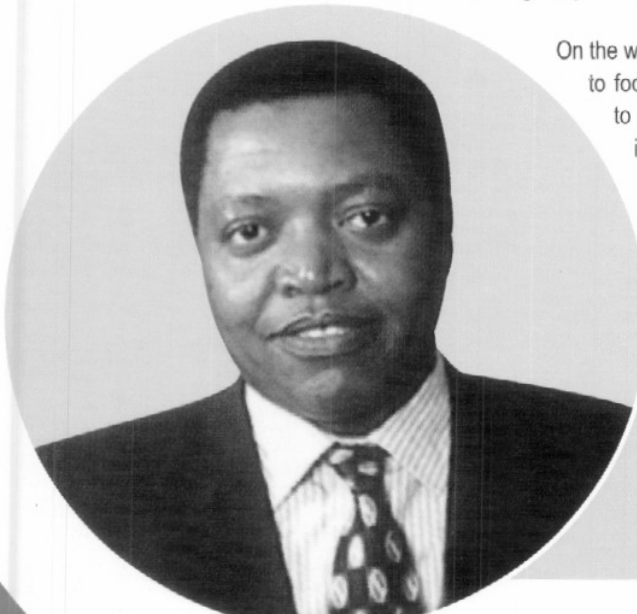
We continued to expand our capacity in the subsidiaries, as we believe these are the locations with huge opportunities for growth. During the year, we invested in infrastructure geared towards supporting our growing customer base. The Group has also been investing in transferring existing customer solutions to these areas, with a view to building longer-term relationships. Performance in these regions was, however, impacted negatively by the shortage of power, which slowed down the productivity in several key industries.

Operational Efficiency

In order to remain competitive, the Group re-engineered some of its key processes as a way of achieving operational efficiency while not compromising on quality. The cost reduction and enhanced efficiency initiatives have focused on production, supply chain and distribution processes. The focus to improve business and operational efficiency is a key performance area for the management team going forward.

Working Capital Management

On the working capital management facet of our business, management continues to focus on initiatives geared towards generating cash internally. I am proud to report that the Group's operations were funded fully from cash raised internally. We shall strive to continue using our own resources to support our growth agenda.

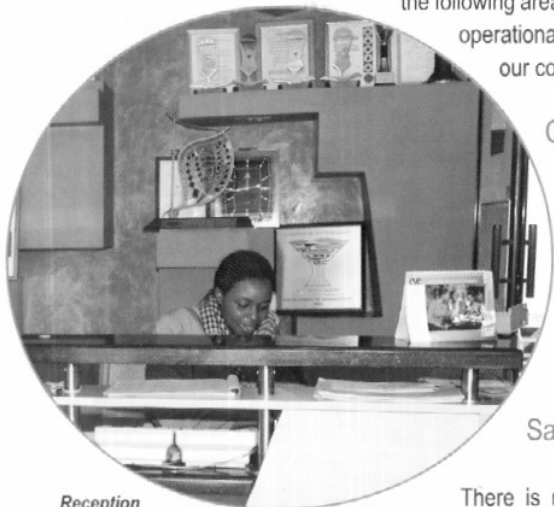


"During the year to 30 September 2006, sales grew by 12% to close at Shs 1,109m, while operating profit, at Shs 301m, was 15% over the previous year."

Managing Director's Report (cont'd)

Behaviour Charter

A behaviour charter has been developed for our staff covering 10 issues that bring together our vision, values and strategic goals in a way that makes it comprehensible to all. Our managers and employees have committed to support these behaviours that cover the following areas; safety, our people, communication and empowerment, customers and our brands, operational excellence, administration, code of conduct, our corporate social responsibility and our commitment to shareholders and growth.



Reception

Customer Service

We strive to be a customer centric organisation by ensuring that we understand our customers' needs and offer them solutions to meet those needs on a continuous basis. To support this effort, we continue to measure our performance in this area and ensure that appropriate corrective action is taken on areas where performance is below acceptable levels. We value our customer feedback as a basis for continuous improvement.

Safety, Health, Environment and Quality Management

There is no greater priority for the Group than the health and safety of our employees, customers, suppliers and local communities and the protection of the environment. In the year numerous activities have been undertaken to ensure that safety remains everyone's responsibility, 100% of the time. The near miss reporting programme and regular "LeadSafe" observations continue to be focus areas for maintaining accident free sites by addressing identified unsafe conditions or acts.

The implementation of the "LeadSafe" programme, a behavioural safety system is progressing well and set targets for the year were achieved. Given the poor conditions of our road network in East Africa, there has been special focus on transport safety with the result of an improved performance on the rating of avoidable accident rate. On safety, the Group has one single goal, which is, zero incidents and injuries.

Significant progress has been made on the implementation of ISO 9001:2000 quality standards. A pre certification audit was carried out in October 2006. We are working towards being certified by mid-2007.

In October 2006, BOC hosted a Safety Responsibility Training seminar organised by representatives from BOC UK and Afrox in South Africa. The seminar brought together fourteen delegates inclusive of participants from Dar-es-salaam, Mwanza, Kampala, Malawi, Nigeria, Zimbabwe, Zambia and Kenya. The training focused on changing safety behaviours at remote sites and assigned responsibilities to those charged with SHEQ roles. The training was very successful and the response from the attendees was very encouraging.

This year there was renewed focus on environmental practices. BOC participated in the National Cleaner Enterprise Awards organised by the Kenya National Cleaner Production Centre. BOC ranked as 2nd runner up in the Occupational Safety and Health Award. As our policy states, we are committed to ensuring that our staff enjoy a safe and healthy working environment and that we will continue to deliver on our commitment to our stakeholders that we shall uphold the principles as stated in our "Behaviours Charter" to ensure that our policy on safety, health, environment and quality

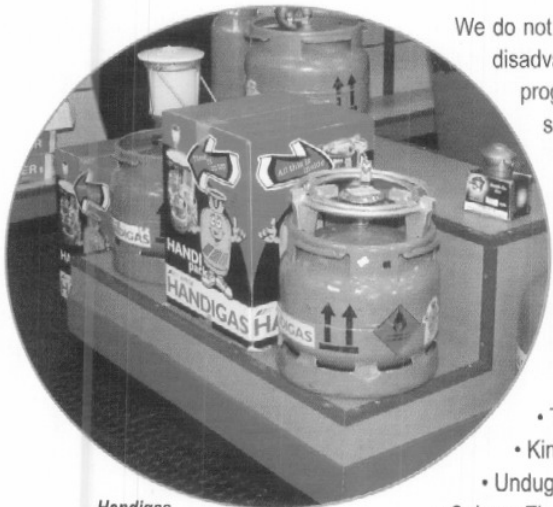


Miller range of welding machines

Managing Director's Report (cont'd)

remains our foremost principle. We will continue to embrace acceptable environmental practices and will ensure that compliance with the new legislation by the National Environmental Management Authority is maintained.

Community Involvement Programme (CIP)



Handigas

We do not take our right to do business for granted and it is for this reason, that we support the disadvantaged in our communities through our Community Involvement Programme. The programme is driven by employees through dedicating their time and effort to supporting sustainable projects of their choice with the support of the identified communities focusing on disadvantaged children. Once a year, the employees and their identified communities celebrate the achievements of the relationship in what we call Tumaini Day. Our employees engage the communities throughout the year making the programme a process rather than an event.

Our Community Involvement Programme continues to support five different children's homes, three in Nairobi and one in Kisumu and one in Mombasa, namely:

- The Spirit of Faith Children's Home in Ruiru
- King Bedouin Children's Home in Mukuru slums, Nairobi
- Undugu Society in Athi River
- Calvary Zion Children's Home in Mombasa
- Mercy Mission Children's Home in Kisumu

The homes support over 400 children that we are proud to be associated with as we endeavour to make a difference in their lives. We are looking at expanding this programme to our subsidiaries in Uganda and Tanzania.

Future Prospects

With opportunities linked to infrastructural and development spending in the region, the prospects for the Group are positive. However, economic growth in the sectors we service may be slowed down by the following factors:-

- Increased cost of doing business driven by high power cost in Kenya and unreliable supplies in Tanzania and Uganda.
- High crude oil and fuel costs which impact negatively on cost of LPG and distribution.
- Poor road conditions.

I am however pleased to report that the Company is well placed to take advantage of emerging opportunities in our region and the neighbouring countries.

Appreciation

I would like to thank the Board for its guidance, the management and staff for their commitment and hard work, and customers and suppliers for their continued support and loyalty.

J M Kariuki
Managing Director
1 November 2006

Corporate Governance

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

The Board recognises the importance of corporate governance and as such it carries out its mandate with honesty, openness and integrity and is committed to applying and enforcing relevant corporate governance principles, policies and practices within the Group. The Board is committed to the principles of accountability and to the provision of relevant and meaningful reporting to all stakeholders.

Below are the key features of corporate governance structure and internal control systems put in place and were in operation during the year.

Board of Directors

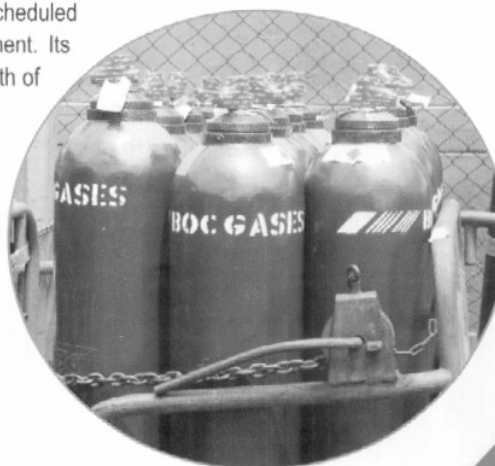
The Board comprises six non-executive directors and one executive director, the company's managing director. The Board meets on a quarterly basis as scheduled during the year, with additional meetings when necessary. The directors are considered on the basis of their experience, skills and level of contribution necessary to carry out their duties. Summarised below are the key roles and responsibilities of the Board:

- Approval and adoption of the strategic and annual business plans, the setting of objectives and review of key risk and performance areas
- Approval of commitments outside the authority delegated to the executive management committees and individual directors
- Determination of overall policies and processes to ensure integrity of the Group's management of risk and internal control
- Approval and adoption of Group policies, programmes and procedures for safety, health, environment, treasury, remuneration and benefits
- Review at regular Board meetings of management 's performance against set objectives
- Approval of the appointment and removal of directors and of the external auditors

Audit Committee

The Board has constituted an Audit Committee, which met three times as scheduled during the year with internal and external auditors as well as management. Its membership comprises Mr Ngugi Kiuna (Chairman) and Michael Rowell both of whom are non-executive directors. Its responsibilities include:

- Ensuring the maintenance of sound risk management and internal control systems and integrity of the financial reporting and internal and external audit process
- Review of financial information in particular half year and the annual financial statements before they are released to the interested stakeholders



- Evaluate the findings of the external and internal audit functions, the actions taken, the appropriateness and adequacy of the systems of internal financial and operational control, review of accounting policies and financial information issued to stakeholders

- Recommend to the Board the appointment and selection of the Group's external auditors, their proposed fee of the subsequent year's audit

- Request for in-depth investigations into any matter that is of concern to the committee that is likely to have an impact on the operations of the Group.

Retirement and Remuneration Benefits Committee

This committee is under the chairmanship of Mr Alfred Juma a non-executive director and Mr Michael Rowell as a member. It is mandated to determine and make recommendations to the Board, on the remuneration policies of the Group and the terms and conditions of employment of the executive director and senior management, in order to maintain a competitive and equitable compensation policy.

Specifically, the committee determines on behalf of the Board the detailed terms of service of senior management team including salaries, performance related bonus arrangements and any other benefits that may accrue from time to time.

Communication With Shareholders

The company is committed to ensuring that shareholders, relevant authorities, such as the Nairobi Stock Exchange and the Capital Markets Authority, and financial markets are provided with timely information about its overall performance. This is usually done through investor briefings at half year and end year results announcements and circulation of the annual financial statements before the annual general meeting.

The Board encourages shareholders to attend its annual general meeting, notice of which is contained in this financial statement. This meeting provides opportunities for shareholders to ask questions to the board.

Directors and Senior Management Emoluments

The Group's policy is designed to attract and retain executives of the highest calibre so that the company is managed successfully to the benefits of its stakeholders. The senior executives remuneration comprises two components namely basic salary and variable compensation.

The basic pay is pegged on information arising from market surveys carried out by independent consultants. The variable compensation plan focuses on annual objectives and links individual performance to business plans. Bonuses are assessed on a combination of financial targets and personal objectives.

The aggregate emoluments paid to the directors for the services rendered during the financial year ended 30 September 2006, are disclosed in the notes to the financial statements.

Directors' Loans

There were no loans made to the directors at any time during the year by virtue of their positions in the Group.



Corporate Governance (cont'd)

Directors' Interest

Below is the summary of the shares held by the directors in the company at the close of the financial period:

Mr John M Kariuki	3,520
Mr Ngugi Kiuna	1,200
Mr Alfred C Juma	500

Executive Committee

The Managing Director chairs an executive committee, which comprises senior management. This committee meets on a monthly basis and is mandated to:

- Review the Group performance vis a vis the agreed targets and objectives as agreed at the beginning of the financial period
- From time to time, take the necessary corrective measures with a view to meet agreed objectives
- Address any critical operational and employee issues that may have arisen in the course of business
- Ensure effective communication within and without of the Group

Risk Management and Internal Control

The management recognises its role to grow shareholder value while adhering to approved risk assessment procedures and limits. This is done by identifying risks that may inhibit the Group from achieving its objectives, analysing those risks, avoiding certain risks and implementing plans for mitigating risks that remain.

The Board recognises 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.

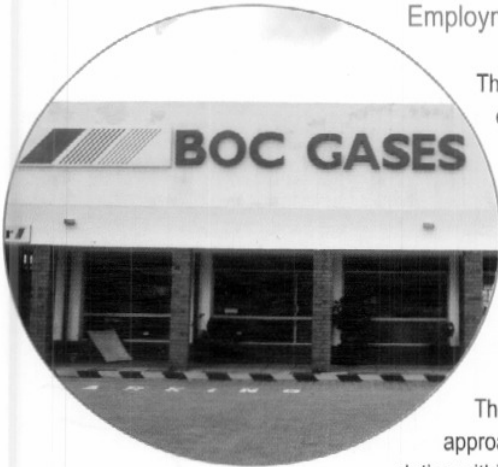
Internal audit meetings are held with senior management to establish and classify major risks and to assess whether appropriate actions are in place to minimise or eliminate them, and whether insurance cover against risk is required.

The directors have also defined procedures and financial controls to ensure that the Group's system of internal controls provides reasonable assurance that the assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. There is a clearly defined organisational structure within which individual responsibilities are identified in relation to internal controls. The structure is complemented by defined procedures, financial controls and information systems controls.

The internal audit department performs various activities in the 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.



Employment Equity



The Group is committed to the creation of an organisation that supports the equality of all employees and is committed to the elimination of any form of discrimination in the work place. Our strategy covers recruitment, staff development and retention and cultural diversity.

Our succession planning process identifies ability and talent and monitors on a regular basis the performance of high worth individuals from designated groups. Individual development plans are agreed upon in collaboration with employee's managers.

The Group manages the development of functional skills through the Licence to Work approach. This approach ensures that all employees are competent to perform their specific duties within a given time frame.

Code of Conduct

The Linde 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.

The Code emphasises living 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
- Incomparable behaviour charter

Going Concern

The directors having considered all the relevant factors are of the opinion that the annual financial statements have been prepared on a going concern basis. The directors have reason to believe that the Group has adequate resources in place to continue in operation for the foreseeable future.

Corporate Governance (cont'd)

Shareholders' profile for the year ended 30 September 2006

Ownship structure

	Number of shareholders	Number of shares held	% of issued shares capital
Foreign investors	10	12,919,048	66.17
Local individual investors	517	1,849,168	9.47
Local institutional investors	188	4,744,723	24.30
East African individual investors	5	9,507	0.05
East African institutional investors	1	3,000	0.01
	721	19,525,446	100.00

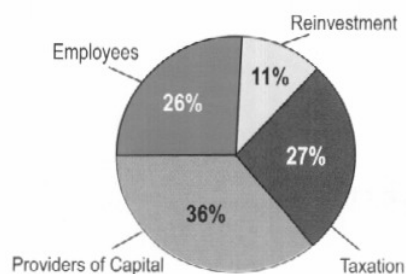
Ten largest shareholders

	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
Barclays (Kenya) Nominees Limited 'Account 1256'	209,900	1.08
Kenya Commercial Bank Nominees 'Account 744'	200,000	1.02
Stanbic Nominees Kenya Limited 'A/C SCKPF'	163,855	0.84
Barclays (Kenya) Nominees Limited 'Account 1853'	155,307	0.80
Kenya Commercial Bank Nominees 'Account 769G'	147,000	0.75
Barclays (Kenya) Nominees Limited 'Account 9230'	130,200	0.67
	15,503,075	79.40

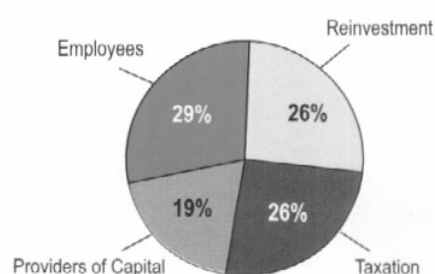
Value distributed and retained

	2006	2005
Sales	1,109,584	987,138
Cost of materials, supplies and services	(491,210)	(433,510)
Value added	618,374	553,628
Employees	171,333	157,961
Providers of capital	220,634	107,388
Taxation	168,419	144,354
Retained	57,988	146,379
	618,374	556,082

Value Distributed and Retained



2006



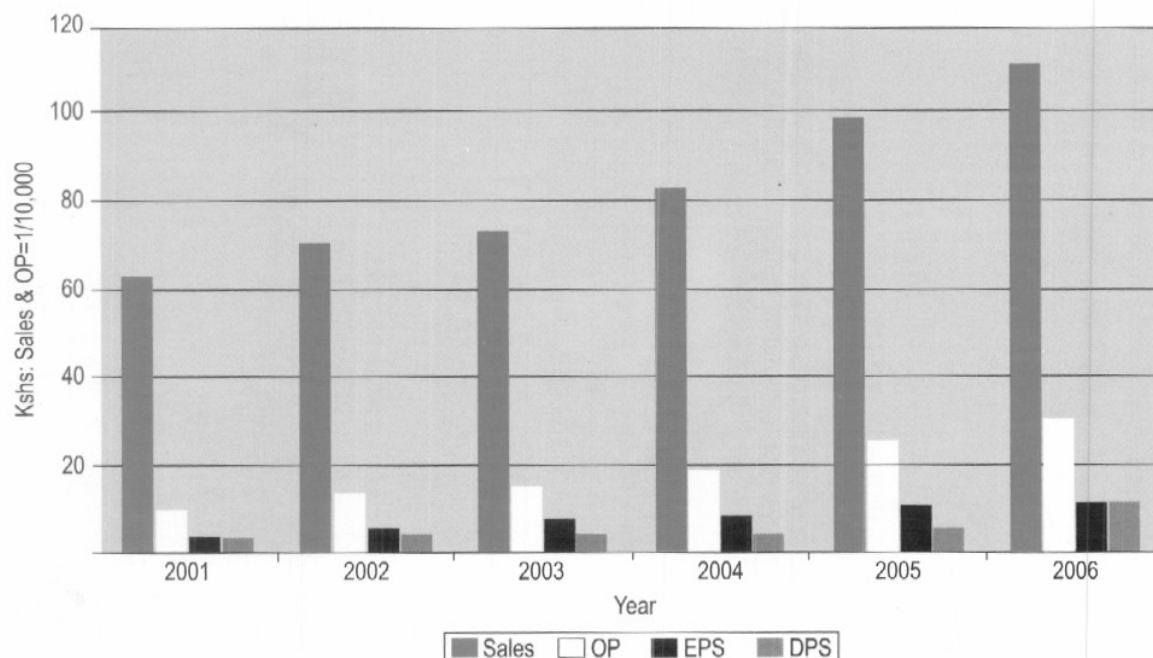
2005

Comparative Results

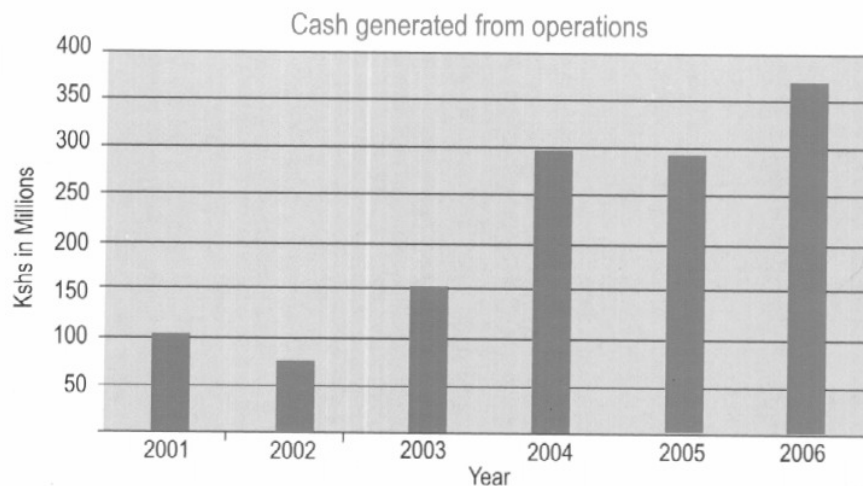
Financial Review

	2001	2002	2003	2004	2005	2006
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Total Revenue	624,986	697,505	728,720	830,675	987,138	1,109,584
Operating profit	96,777	136,535	148,675	189,324	253,800	300,505
Profit before tax	118,175	154,990	210,720	220,980	291,257	333,705
Net profit	75,050	105,491	152,619	160,117	207,446	225,940
Cash generated from operations	118,810	95,703	168,985	313,010	379,516	308,909
Earnings per share	3.84	5.40	7.82	8.20	10.62	11.57
Dividend per share	3.55	4.35	4.35	4.50	5.50	11.30
Shareholders' funds	986,406	1,006,873	1,009,479	1,076,803	1,266,661	1,271,846
Net assets	1,034,394	1,050,525	1,124,441	1,199,479	1,324,141	1,341,037
Capital expenditure	55,723	37,132	47,915	112,959	114,857	104,778
Contingent liabilities	10,411	9,050	9,918	18,411	19,734	29,812

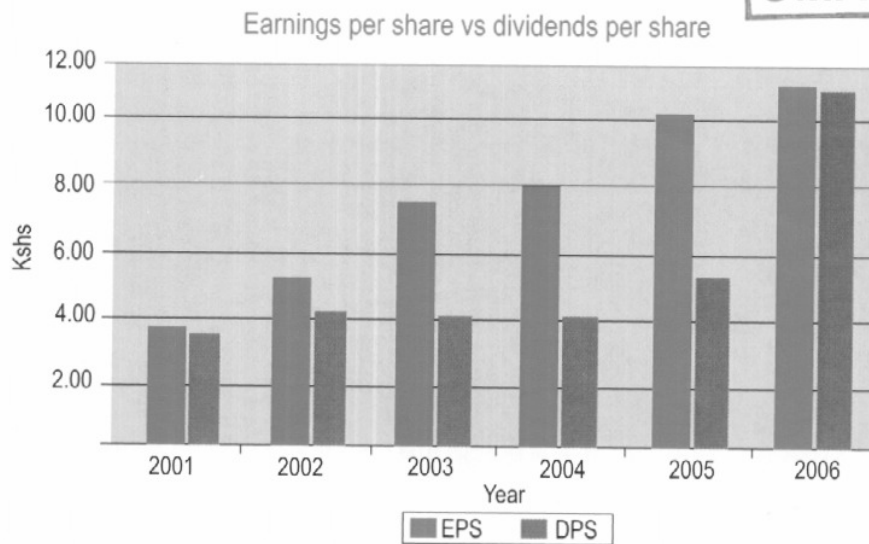
Performance Profile



Comparative Results (cont'd)

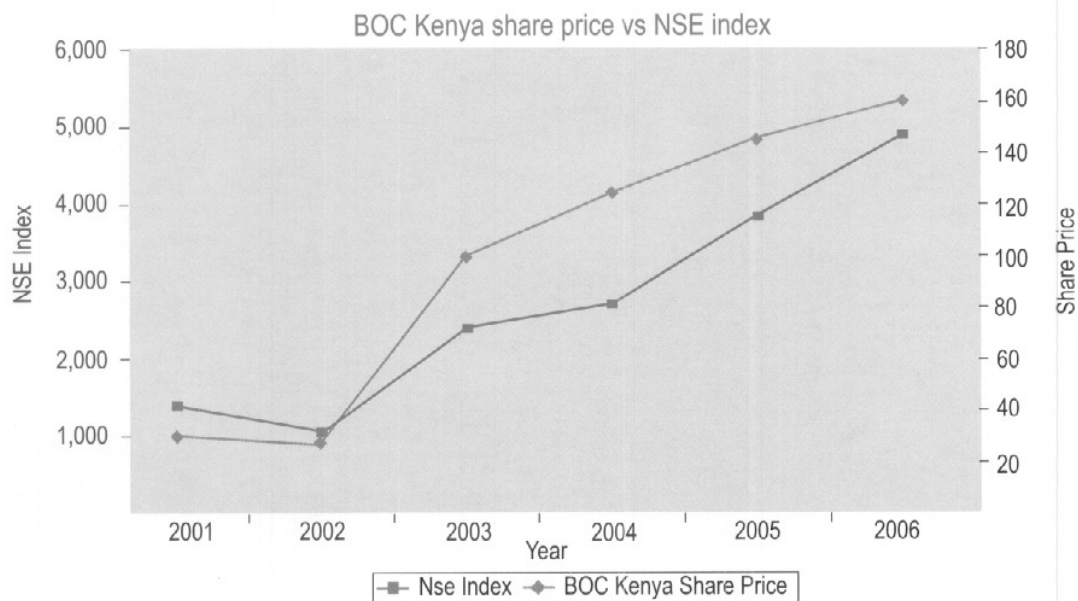
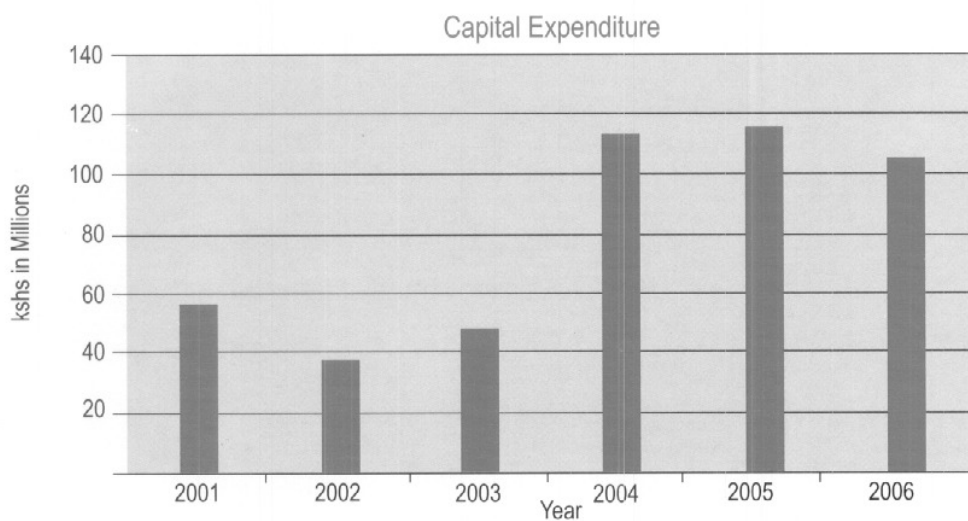
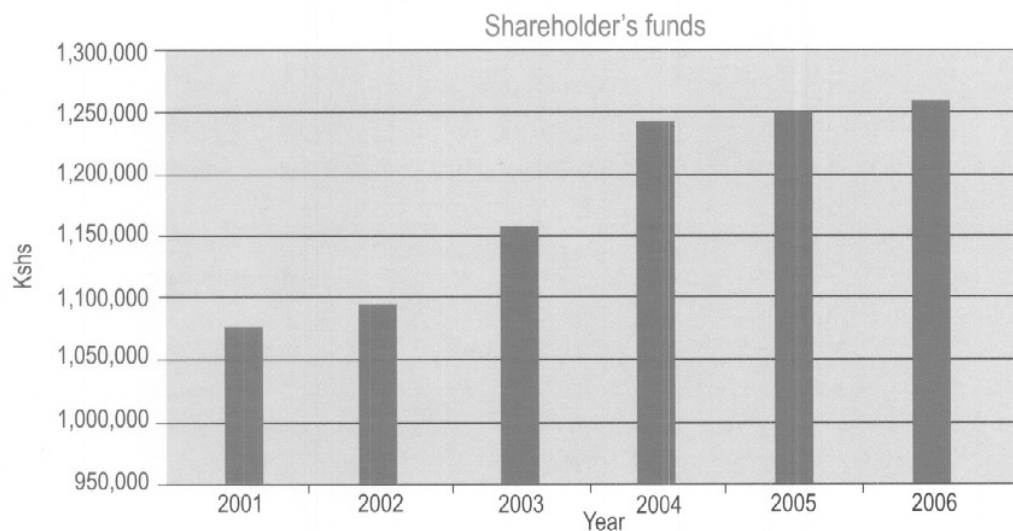


CMA-LIBRARY



Gas and gear centre

Comparative Results (cont'd)



Statement of Directors' Responsibility

for the year ended 30 September 2006

The Kenya Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. 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 estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenya 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 of the company and of the group's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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 twelve months from the date of this statement.

JG Kibe

Director

1 November 2006

JM Kariuki

Director

Report of the Independent Auditors

to the members of BOC Kenya Limited

We have audited the consolidated financial statements of BOC Kenya Limited (the company) and its subsidiaries (together, the group) for the year ended 30 September 2006 set out on pages 21 to 50 and the accompanying balance sheet of the company standing alone as at 30 September 2006 (the financial statements).

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements, as described on page 19. 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 at 30 September 2006 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The balance sheet of the company is in agreement with its books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants

Nairobi

1 November 2006

Consolidated profit and loss account

for the year ended 30 September 2006

	Notes	2006 Shs'000	2005 Shs'000
Sales	5	1,109,584	987,138
Cost of sales		(491,210)	(425,866)
Gross profit		618,374	561,272
Other operating income		7,123	11,438
Distribution costs		(106,714)	(101,897)
Administrative expenses		(193,378)	(193,588)
Other operating expenses		(24,900)	(14,845)
Group operating profit	6	300,505	262,380
Finance income	8	30,378	26,067
Dividend income	9	2,822	2,810
Profit before income tax		333,705	291,257
Income tax expense	10	(107,765)	(83,811)
Profit for the year		225,940	207,446
Earnings per share for profit attributable to equity holders of the company			
- basic and diluted (Shs per share)	11	11.57	10.62
Dividends:			
Interim dividends - paid in the year	12	24,406	24,406
Special dividends - paid in the year	12	113,245	-
Proposed final dividends for the year	12	82,982	82,982
		220,633	107,388

Consolidated balance sheet

for the year ended 30 September 2006

	Notes	2006 Shs'000	2005 Shs'000
CAPITAL EMPLOYED			
Share capital	13	97,627	97,627
Share premium	13	2,554	2,554
Revaluation surplus	14	120,141	119,920
Translation reserve		(4,214)	(4,098)
Retained earnings		972,756	967,676
Proposed dividends	12	82,982	82,982
Shareholders' funds		1,271,846	1,266,661
Non-current liabilities			
Deferred income tax	15	69,191	57,480
		1,341,037	1,324,141
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	17 (a)	685,665	648,887
Available-for-sale financial assets	19	90,420	87,120
Prepaid operating leases	20	4,251	4,346
Prepaid contribution	16	19,679	5,187
		800,015	745,540
Current assets			
Inventories	21	168,635	135,620
Receivables and prepayments	22	273,663	272,104
Current income tax		4,895	18,914
Held-to-maturity investments	23	372,083	314,031
Cash and bank balances	23	86,061	126,958
		905,337	867,627
Current liabilities			
Payables and accrued expenses	24	364,315	289,026
		364,315	289,026
Net current assets		541,022	578,601
		1,341,037	1,324,141

The financial statements on pages 21 to 50 were approved for issue by the board of directors on 1 November 2006 and signed on its behalf by:

JG Kibe
Director

JM Kariuki
Director

Company balance sheet

for the year ended 30 September 2006

	Notes	2006 Shs'000	2005 Shs'000
CAPITAL EMPLOYED			
Share capital	13	97,627	97,627
Share premium	13	2,554	2,554
Revaluation surplus	14	120,141	119,920
Retained earnings		951,325	948,609
Proposed dividends	12	82,982	82,982
Shareholders' funds		1,254,629	1,251,692
Non-current liabilities			
Deferred income tax	15	62,844	57,845
		62,844	57,845
		1,317,473	1,309,537
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	17(b)	645,610	612,482
Investment in subsidiaries	18	60	60
Prepaid operating leases	20	4,251	4,346
Prepaid contribution	16	19,679	5,187
		669,600	622,075
Current assets			
Inventories	21	150,316	115,096
Receivables and prepayments	22	408,544	410,413
Current income tax		7,603	10,174
Held-to-maturity investments	23	372,083	314,031
Cash and bank balances	23	64,740	116,242
		1,003,286	965,956
Current liabilities			
Payables and accrued expenses	24	355,413	278,494
		355,413	278,494
Net current assets		647,873	687,462
		1,317,473	1,309,537

The financial statements on pages 21 to 50 were approved for issue by the board of directors on 1 November 2006 and signed on its behalf by:

JG Kibe
Director

JM Kariuki
Director

Consolidated statement of changes in equity

for the year ended 30 September 2006

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Translation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 30 September 2005							
At start of year	97,627	2,554	121,993	3,626	859,223	68,340	1,153,363
Transfer of excess depreciation	-	-	(2,961)	-	2,961	-	-
Deferred income tax on transfer	-	-	888	-	(888)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(2,073)	-	2,073	-	-
Currency translation differences	-	-	-	(7,724)	6,322	-	(1,402)
Profit for the year	-	-	-	-	207,446	-	207,446
Dividends:							
- Final for 2004 (paid)	-	-	-	-	-	(68,340)	(68,340)
- Interim for 2005 (paid)	-	-	-	-	(24,406)	-	(24,406)
- Proposed final for 2005	-	-	-	-	(82,982)	82,982	-
At end of year	97,627	2,554	119,920	(4,098)	967,676	82,982	1,266,661
Year ended 30 September 2006							
At start of year	97,627	2,554	119,920	(4,098)	967,676	82,982	1,266,661
Transfer of excess depreciation	-	-	(2,841)	-	2,841	-	-
Deferred income tax on transfer	-	-	852	-	(852)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(1,989)	-	1,989	-	-
Revaluation surplus	-	-	3,157	-	-	-	3,157
Deferred income tax on revaluation	-	-	(947)	-	-	-	(947)
Net revaluation surplus	-	-	2,210	-	-	-	2,210
Currency translation differences	-	-	-	(116)	(2,216)	-	(2,332)
Profit for the year	-	-	-	-	225,940	-	225,940
Dividends:							
- Final for 2005 (paid)	-	-	-	-	-	(82,982)	(82,982)
- Special for 2006	-	-	-	-	(113,245)	-	(113,245)
- Interim for 2006	-	-	-	-	(24,406)	-	(24,406)
- Proposed final for 2006	-	-	-	-	(82,982)	82,982	-
At end of year	97,627	2,554	120,141	(4,214)	972,756	82,982	1,271,846

Company statement of changes in equity

for the year ended 30 September 2006

	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 2005						
At start of year	97,627	2,554	121,993	851,608	68,340	1,142,122
Transfer of excess depreciation	-	-	(2,961)	2,961	-	-
Deferred income tax on transfer	-	-	888	(888)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(2,073)	2,073	-	-
Profit for the year	-	-	-	202,316	-	202,316
Dividends:						
- Final for 2004 (paid)	-	-	-	-	(68,340)	(68,340)
- Interim for 2005 (paid)	-	-	-	(24,406)	-	(24,406)
- Proposed final for 2005	-	-	-	(82,982)	82,982	-
At end of year	97,627	2,554	119,920	948,609	82,982	1,251,692
Year ended 30 September 2006						
At start of year	97,627	2,554	119,920	948,609	82,982	1,251,692
Transfer of excess depreciation	-	-	(2,841)	2,841	-	-
Deferred income tax on transfer	-	-	852	(852)	-	-
Net gains/(losses) not recognised in the profit and loss account	-	-	(1,989)	1,989	-	-
Revaluation surplus	-	-	3,157	-	-	3,157
Deferred tax on revaluation	-	-	(947)	-	-	(947)
Net revaluation surplus	-	-	2,210	-	-	2,210
Profit for the year	-	-	-	221,360	-	221,360
Dividends:						
- Final for 2005 (paid)	-	-	-	-	(82,982)	(82,982)
- Special for 2006	-	-	-	(113,245)	-	(113,245)
- Interim for 2006	-	-	-	(24,406)	-	(24,406)
- Proposed final for 2006	-	-	-	(82,982)	82,982	-
At end of year	97,627	2,554	120,141	951,325	82,982	1,254,629

Consolidated cash flow statement

for the year ended 30 September 2006

	Notes	2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	27	379,516	308,909
Interest paid		(6)	(11)
Income tax paid		(82,982)	(102,026)
Net cash generated from operating activities		296,528	206,872
Investing activities			
Purchase of property, plant and equipment		(104,778)	(114,857)
Fair value gain on investment		(3,300)	(8,580)
Proceeds from disposal of property, plant and equipment		21,020	3,984
Interest received		24,774	20,536
Dividends received		2,822	2,810
Net cash used in investing activities		(59,462)	(96,107)
Financing activities			
Dividends paid		(220,633)	(92,746)
Net cash used in financing activities		(220,633)	(92,746)
Increase in cash and cash equivalents		16,433	18,019
Movement in cash and cash equivalents			
At start of year		440,989	417,875
Increase		16,433	18,019
Net movement on exchange rates in cash and cash equivalents		722	5,095
At end of year	23	458,144	440,989

Notes forming part of the financial statements

for the year ended 30 September 2006

1 General information

The company is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company and is domiciled in Kenya. The address of its registered office is:

Kitui Road
PO Box 18010
NAIROBI 00500

The company's shares are listed on the Nairobi Stock Exchange.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain property and equipment and the carrying of investment property and certain financial assets and financial liabilities at fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2006, the International Accounting Standards Board (IASB) issued a number of new and revised standards and interpretations. These have been adopted early but have no impact on the reported results of the Group.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(b) Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

Notes forming part of the financial statements

for the year ended 30 September 2006

CMA-LIBRARY

2 Summary of significant accounting policies (continued)

(c) Functional currency and translation of foreign currencies (continued)

(ii) Transactions and balances in group entities

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) Consolidation of group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Segment reporting

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

(e) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

- (i) Sales of goods are recognised in the period in which the group delivers products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.
- (ii) Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (iii) Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; 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 depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see 1(i) below).

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

(g) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in receivables and prepayments in the balance sheet

Held-to-maturity investments

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. During the year, the Group did not hold any investments in this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(g) Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(h) Accounting for leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset.

Leases in 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.

(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) Receivables

Trade Receivables are initially recognised at fair value and subsequently measured 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 present value of estimated future cash flows discounted at the effective interest rate. The amount of provision is recognised in the profit and loss account.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(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

(i) 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 Group's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

The asset recognised in the balance sheet in respect of defined benefit pension plan is the surplus of the fair value of the plan assets over the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Other entitlements

Employee entitlements to 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) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

2 Summary of significant accounting policies (continued)

(m) Income tax (continue)

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income 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. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared.

(o) Comparatives

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

3 Financial risk management

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 the group to hedge against such risks.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

Fair value estimation.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

4 Critical accounting estimates and judgements

(i) Critical accounting estimates and assumptions (continue)

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- the classification of financial assets
- whether assets are impaired.

5 Segment information

Primary reporting format - Geographical segments

At 30 September 2006 the Group was organised into three geographical segments:

- (i) Kenya
- (ii) Tanzania
- (iii) Uganda

Year ended 30 September 2006

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Sales	993,747	82,544	33,293	1,109,584
Operating profit	282,059	11,597	9,671	303,327
Finance income net	30,378	-	-	30,378
Profit before income tax	312,437	11,597	9,671	333,705
Income tax expenses	(104,574)	(1,740)	(1,451)	(107,765)
Profit for the year	207,863	9,857	8,220	225,940

Notes forming part of the financial statements continued

for the year ended 30 September 2006

5 Segment information (continued)

Year ended 30 September 2005

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Sales	890,553	62,766	33,819	987,138
Operating profit	256,529	1,456	7,205	265,190
Finance income net	26,067	-	-	26,067
Profit before income tax	282,596	1,456	7,205	291,257
Income tax expenses	(82,512)	(218)	(1,081)	(83,811)
Profit for the year	200,084	1,238	6,124	207,446

Other segment items included in the profit and loss account are

Year ended 30 September 2006

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Depreciation	48,131	1,878	897	50,906
Impairment of trade receivables	14,627	2,593	703	17,923

Year ended 30 September 2005

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Depreciation	44,025	1,501	795	46,321
Impairment of trade receivables	3,712	858	3,092	7,662

The segment and assets and liabilities at 30 September 2006 and capital expenditure for the year then ended are as follows:

Year ended 30 September 2006

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Assets	1,672,886	17,903	14,563	1,705,352
Liabilities	(355,413)	(6,786)	(2,116)	(364,315)
Capital expenditure	95,299	9,408	71	104,778

Notes forming part of the financial statements continued

for the year ended 30 September 2006

CMA-LIBRARY

5 Segment information (continued)

Year ended 30 September 2005

	Kenya Shs '000	Tanzania Shs'000	Uganda Shs'000	Total Shs'000
Assets	1,588,031	20,413	4,723	1,613,167
Liabilities	(278,494)	(6,960)	(3,572)	(289,026)
Capital expenditure	114,435	422	-	114,857

Segment assets comprise primarily property, plant and equipment, inventories, receivables and operating cash. They exclude deferred tax and investments.

Segment liabilities comprise operating liabilities and exclude income tax.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Secondary segment - business segments

The major part of the business of the group falls under the category of production and sale of gases and welding products. The results from other sources comprises less than 8% (2005: 8%) of the total results of the group and does not constitute a separate reportable segment.

6 Group operating profit

	2006 Shs'000	2005 Shs'000
Other items that have been charged / (credited) in arriving at group operating profit:		
Repairs and maintenance expenditure on property, plant and equipment	16,613	14,161
Operating lease payments expensed	95	95
Write down of inventory	16,067	13,287
Profit on disposal of property, plant and equipment	(3,823)	(2,858)
Inventory expensed	491,210	425,866
Employee benefits expense (Note 7)	171,384	157,961
Auditors' remuneration - Group	2,772	2,431
- Company	1,800	1,631

7 Employee benefits expenses

The following items are included within employee benefits expense:

Social security benefits	365	380
Retirement benefits costs:		
- defined contribution scheme	1,256	1,083
- defined benefit scheme (Note 16)	(6,103)	4,144

Notes forming part of the financial statements continued

for the year ended 30 September 2006

8 Finance income

	2006 Shs'000	2005 Shs'000
Interest expense on bank overdrafts	(6)	(11)
Interest income	24,774	20,536
Net foreign currency exchange gain	5,610	5,542
	30,378	26,067

9 Dividend income

	2006 Shs'000	2005 Shs'000
Dividend income	2,822	2,810

Dividend income represents an interim dividend from investment in the shares of a company that is quoted on the Nairobi Stock Exchange (Note 19).

10 Income tax expense

	2006 Shs'000	2005 Shs'000
Current income tax	97,001	72,447
Deferred income tax (Note 15)	2,013	6,109
Under provision of deferred income tax in prior years	8,751	5,255
	107,765	83,811

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

	2006 Shs'000	2005 Shs'000
Profit before income tax	333,705	291,257
Tax calculated at a tax rate of 30% (2005 - 30%)	100,111	87,377
Tax effect of:		
Income not subject to tax	(3,804)	(11,368)
Expenses not deductible for tax purposes	2,707	2,547
Under provision of deferred income tax in prior years	8,751	5,255
Income tax expense	107,765	83,811

Notes forming part of the financial statements continued

for the year ended 30 September 2006

11 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.

	2006 Shs '000	2005 Shs '000
Net profit attributable to shareholders	225,940	207,446
Weighted average number of ordinary shares in issue	19,525	19,525
Basic earnings per share (Shs)	11.57	10.62

There were no potentially dilutive shares outstanding at 30 September 2006 or 30 September 2005.

12 Dividends per share

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. A special dividend of Kshs 5.80 per share amounting to Shs 113,245,000 was declared on 3 April 2006 and paid on 28 April 2006. At the next annual general meeting a final dividend in respect of the year ended 30 September 2006 of Shs 4.25 per share (2005: Shs 4.25 per share), amounting to a total of Shs 82,982,000 (2005: Shs 82,982,000) is to be proposed. During the year, an interim dividend of Shs 1.25 per share (2005: Shs 1.25 per share), amounting to a total of Shs 24,406,000 (2005: Shs 24,406,000) was paid. The total dividend for the year is therefore Shs 11.30 per share (2005: Shs 5.50), amounting to a total of Shs 220,633,000 (2005: Shs 107,388,000).

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

13 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 30 September 2004, 2005 and 2006	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 up.

14 Revaluation surplus

Revaluation surplus relates to surplus arising on revaluation of the company's buildings net of deferred income tax and are non-distributable. The movement on the revaluation reserve is shown on the statement of changes in equity.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

15 Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
At start of year	57,480	46,116	57,845	46,481
Charge to profit and loss account (Note 10)	10,764	11,364	4,052	11,364
Charge to equity	947	-	947	-
At end of year	69,191	57,480	62,844	57,845

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

(a) Group

	1.10.2005 Shs'000	Charged/ (credited) to P/L Shs'000	Charge to equity Shs' 000	30.09.2006 Shs'000
Deferred income tax liabilities				
Property, plant and equipment				
- on historical cost	24,733	13,877	-	38,610
- on revaluation	35,452	(852)	947	35,547
Unrealised exchange gains	(278)	278	-	-
	59,907	13,303	947	74,157
Deferred income tax assets				
Accrued expenses	(2,427)	(2,539)	-	(4,966)
Net deferred income tax liability	57,480	10,764	947	69,191

Notes forming part of the financial statements continued

for the year ended 30 September 2006

15 Deferred income tax (continued)

(b) Company

	1.10.2005 Shs'000	Charged/ (credited) to P/L Shs'000	Charge to equity Shs' 000	30.09.2006 Shs'000
Deferred income tax liabilities				
Property, plant and equipment				
- on historical cost	23,935	5,487	-	29,422
- on revaluation	35,452	(852)	947	35,547
Unrealised exchange gains / (losses)	885	(1,067)	-	(182)
	60,272	3,568	947	64,787
Deferred income tax assets				
Accrued expense	(2,427)	484	-	(1,943)
Net deferred income tax liability	57,845	4,052	947	62,844

Deferred income tax of Shs 852,000 (2005: Shs 888,000) for both the group and the company was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the buildings and the equivalent depreciation based on the historical cost of the buildings.

16 Retirement benefit obligations – Group and Company

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

	2006 Shs'000	2005 Shs'000
Present value of funded obligations	233,362	200,866
Fair value of scheme assets	253,041	214,998
Present value of over funded obligations	(19,679)	(14,132)
Unrecognised actuarial gains	-	8,945
Asset in the balance sheet	(19,679)	(5,187)

The actual return on scheme assets was Shs 40,425,000 (2005: Shs 26,935,000).

Notes forming part of the financial statements continued

for the year ended 30 September 2006

16 Retirement benefit obligations – Group and Company – (continued)

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

	2006 Shs'000	2005 Shs'000
Current service cost	5,809	5,477
Interest cost	17,671	15,384
Expected return on plan assets	(19,426)	(16,717)
Past service costs	39,519	-
Gains on curtailment and settlement	(49,676)	-
Net charge for the year included in staff costs	(6,103)	4,144

The movement on the asset recognised in the balance sheet is as follows:

At start of year	5,187	1,309
Net charge for the year included in staff costs	6,103	(4,144)
Contributions paid	8,389	8,022
	19,679	5,187

The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	9%	9%
Expected return on scheme assets	9%	9%
Future salary increases	7%	7%
Future pension increases	0%	0%

During the year, the board of directors, with the approval of members of the scheme and the regulators resolved to convert the pension scheme from defined benefits scheme to defined contribution scheme. The board of directors further resolved to enhance members benefits arising from past services rendered as part of the conversion.

The asset arising from the valuation of the scheme has been recognised as a prepaid contribution as the Group will enjoy a contribution holiday on conversion of the scheme to the extent of the over funding on the scheme.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

17 Property, plant and equipment

(a) (i) 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
Year ended 30 September 2006						
<u>Cost or valuation</u>						
At start of year	221,995	463,236	289,710	73,914	15,174	1,064,029
Additions	3,806	33,724	39,978	7,642	19,628	104,778
Disposals	(16,000)	(10,749)	(77)	-	-	(26,826)
Reclassification	3,245	10,279	2,511	-	(16,035)	-
Currency translation differences	(203)	(1,592)	(1,860)	(71)	-	(3,726)
At end of year	212,843	494,898	330,262	81,485	18,767	1,138,255
<u>Depreciation</u>						
At start of year	(15,056)	(254,086)	(84,242)	(61,758)	-	(415,142)
Charge for the year	(5,471)	(28,845)	(11,338)	(5,252)	-	(50,906)
On disposals	1,287	8,265	77	-	-	9,629
Revaluation	3,157	-	-	-	-	3,157
Currency translation differences	74	364	206	28	-	672
At end of year	(16,009)	(274,302)	(95,297)	(66,982)	-	(452,590)
<u>Net book amount</u>						
At 30 September 2006	196,834	220,596	234,964	14,503	18,767	685,665

(a) (ii) Group

Year ended 30 September 2005						
<u>Cost or valuation</u>						
At start of year	205,828	393,020	269,342	69,768	20,181	958,139
Additions	1,324	45,663	4,568	3,062	60,240	114,857
Disposals	-	-	(400)	(1,354)	-	(1,754)
Reclassification	15,092	26,238	21,302	2,615	(65,247)	-
Currency translation differences	(249)	(1,685)	(5,102)	(177)	-	(7,213)
At end of year	221,995	463,236	289,710	73,914	15,174	1,064,029
<u>Depreciation</u>						
At start of year	(9,924)	(229,223)	(74,813)	(56,205)	-	(370,165)
Charge for the year	(5,198)	(25,165)	(10,066)	(5,892)	-	(46,321)
On disposals	-	-	379	249	-	628
Currency translation differences	66	302	258	90	-	716
At end of year	(15,056)	(254,086)	(84,242)	(61,758)	-	(415,142)
<u>Net book amount</u>						
At 30 September 2005	206,939	209,150	205,468	12,156	15,174	648,887

Notes forming part of the financial statements continued

for the year ended 30 September 2006

17 Property, plant and equipment (continued)

(b) (i) 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
Year ended 30 September 2006						
<u>Cost or valuation</u>						
At start of year	220,974	453,945	257,900	73,136	13,284	1,019,239
Additions	3,593	30,445	39,978	4,669	16,614	95,299
Disposals	(16,000)	(10,749)	(77)	-	-	(26,826)
Reclassification	3,245	10,279	2,511	-	(16,035)	-
At end of year	211,812	483,920	300,312	77,805	13,863	1,087,712
<u>Depreciation</u>						
At start of year	(14,497)	(249,819)	(81,395)	(61,046)	-	(406,757)
Charge for the year	(5,332)	(27,298)	(10,122)	(5,379)	-	(48,131)
On disposals	1,287	8,265	77	-	-	9,629
Revaluation	3,157	-	-	-	-	3,157
At end of year	(15,385)	(268,852)	(91,440)	(66,425)	-	(442,102)
<u>Net book amount</u>						
At 30 September 2006	196,427	215,068	208,872	11,380	13,863	645,610

Buildings were valued during the year ended 30 September 2006, 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 income tax was taken to revaluation reserves in shareholders' equity.

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

	2006 Shs'000	2005 Shs'000
Cost	103,895	93,900
Accumulated depreciation	(8,780)	(6,288)
Net book amount	95,115	87,612

Notes forming part of the financial statements continued
for the year ended 30 September 2006

17 Property, plant and equipment (continued)

CMA - LIBRARY

(b) (ii) 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
Year ended 30 September 2005						
<u>Cost or valuation</u>						
At start of year	208,156	378,446	232,430	68,733	18,793	906,558
Additions	1,324	45,663	4,568	3,142	59,738	114,435
Disposals	-	-	(400)	(1,354)	-	(1,754)
Reclassification	11,494	29,836	21,302	2,615	(65,247)	-
At end of year	220,974	453,945	257,900	73,136	13,284	1,019,239
<u>Depreciation</u>						
At start of year	(9,438)	(226,324)	(72,905)	(54,693)	-	(363,360)
Charge for the year	(5,059)	(23,495)	(8,869)	(6,602)	-	(44,025)
On disposals	-	-	379	249	-	628
At end of year	(14,497)	(249,819)	(81,395)	(61,046)	-	(406,757)
<u>Net book amount</u>						
At 30 September 2005	206,477	204,126	176,505	12,090	13,284	612,482

Notes forming part of the financial statements continued

for the year ended 30 September 2006

18 Investment in subsidiaries

	Percentage shareholding	2006 Shs'000	2005 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. The principal activity of the companies is the sales of industrial and medical gases, and welding products.

Kivuli Limited, a special purpose entity, is incorporated in Kenya and has been consolidated into the financial statement as it holds certain investments on behalf of BOC Kenya Limited.

19 Available-for-sale financial assets

Group and company

	2006 Shs'000	2005 Shs'000
At start of year	87,120	78,540
Fair value gain	3,300	8,580
At end of year	90,420	87,120

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

During the year, BOC Kenya Limited made an offer to the shareholders of Carbacid Investment Limited to acquire its entire equity of 10,666,755 shares, through a share swap of 1 share in the company for 1.802 shares and a cash payment of Kshs 25.35 for every share acquired in Carbacid Investments Limited. The Capital Market Authority is yet to provide approval for the transactions due to certain regulatory issues. This matter is currently before the Capital Markets Tribunal and we believe the matter will be resolved in the near future. Costs amounting to Shs 6,700,000 relating directly to the intended acquisition have been treated as payments in advance awaiting the conclusion of this transaction, upon which they will be treated as part of the purchase consideration.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

20 Prepaid operating leases

Group and company	2006 Shs'000	2005 Shs'000
Leases expiring beyond five years		
At start of year	4,346	4,441
Amortisation for the year	(95)	(95)
At end of year	4,251	4,346

21 Inventories

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
Raw materials	8,921	7,312	8,766	7,312
Finished goods and other saleable stock	126,169	126,466	107,007	104,329
Plant spares	33,158	28,026	30,992	25,509
Goods in transit	33,962	14,858	33,962	14,858
Work in progress	3,835	115	3,835	115
Provisions for impairment	(37,410)	(41,157)	(34,246)	(37,027)
	168,635	135,620	150,316	115,096

22 Receivables and prepayments

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
Trade receivables	237,007	232,549	267,303	271,936
Less: Provision for impairment	(17,951)	(36,508)	(13,353)	(30,723)
	219,056	196,041	253,950	241,213
Prepayments	10,837	3,000	8,850	1,245
Receivables from related companies (Note 28)	3,760	3,121	103,215	127,300
Other receivables	40,010	69,942	42,529	40,655
	273,663	272,104	408,544	410,413

Notes forming part of the financial statements continued

for the year ended 30 September 2006

23 Cash and cash equivalents

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

	Group		Company	
	2006 Shs'000	2005 Shs'000	2006 Shs'000	2005 Shs'000
Cash at bank and in hand	86,061	126,958	64,740	116,242
Held-to-maturity investments	372,083	314,031	372,083	314,031
	458,144	440,989	436,823	430,273

Held-to-maturity investments 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.

The weighted average effective interest rate on short-term bank deposits at year-end was 6.7% (2005: 8.2%).

24 Payables and accrued expenses

	Group		Company	
	Shs'000 2006	Shs'000 2005	Shs'000 2006	Shs'000 2005
Cylinder deposits	101,444	97,884	94,715	92,243
Trade payables	121,358	99,188	113,393	98,968
Amounts due to related companies (Note 28)	29,075	22,263	29,075	22,263
Accruals and other payables	112,438	69,691	118,230	65,020
	364,315	289,026	355,413	278,494

25 Contingent liabilities

At 30 September 2006, the company had given guarantees amounting to Shs 29,812,370 (2005: Shs 19,734,728) on behalf of third parties.

There are certain pending legal claims brought against the company as at 30 September 2006 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 crystallise.

Notes forming part of the financial statements continued

for the year ended 30 September 2006

26 Capital commitments

At 30 September 2006 the company had outstanding capital commitments amounting to Shs 18,388,208 (2005: Shs NIL.)

27 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2006 Shs'000	2005 Shs'000
Profit before tax	333,705	291,257
Adjustments for:		
Depreciation	50,906	46,321
Amortisation of operating leases	95	95
Profit on sale of property, plant and equipment	(3,823)	(2,858)
Interest income (Note 8)	(24,774)	(20,536)
Interest expense (Note 8)	6	11
Dividend income (Note 9)	(2,822)	(2,810)
Changes in working capital:		
- receivables and prepayments	(1,559)	(53,330)
- inventories	(33,015)	21,757
- payables and accrued expenses	75,289	32,880
- retirement benefits liabilities	(14,492)	(3,878)
Cash generated from operations	379,516	308,909

28 Related party transactions

Group

The ultimate parent of the group is The Linde Group incorporated in Germany. There are other companies that 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

	2006 Shs'000	2005 Shs'000
BOC Zambia Limited	1,446	2,039
Afrox Limited	350	-
	1,796	2,039

Notes forming part of the financial statements continued

for the year ended 30 September 2006

28 Related party transactions (continued)

ii) Purchase of goods and services from related parties

	2006 Shs'000	2005 Shs'000
BOC Group plc	41,271	22,300
Afrox Limited	90,903	70,229
Cryostar Limited - France	5,791	9,772
	137,965	102,301

iii) Outstanding balances included in receivables

	2006 Shs'000	2005 Shs'000
BOC Malawi Limited	147	148
BOC Zambia Limited	2,300	924
BOC Nigeria Limited	963	2,049
Afrox Limited	350	-
	3,760	3,121

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

	2006 Shs'000	2005 Shs'000
BOC Group plc	18,513	4,373
Afrox Limited	9,498	17,890
Cryostar Limited - France	1,064	-
	29,075	22,263

v) Key management compensation

- Salaries and other short term benefits	12,138	12,398
	12,138	12,398

vi) Directors' remuneration

- fees	2,150	1,741
- other emoluments (included in key management compensation above)	12,138	12,398
	14,288	14,139

Proxy form

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 company to be held on Thursday, 18 January 2007 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



Fold 2

STICK
STAMP
HERE

Company Secretary
BOC Kenya Limited
P O Box 18010
Nairobi 00500
Kenya

Fold 1

Fold 3

Insert flap inside