IMARA DAIMA

BAT KENYA LIMITED

1996

ANNUAL REPORT & ACCOUNTS

CONTENTS

Highlights 1996	1
Board of Directors	2
Chairman's Review	4
Ripoti ya Mwenyekiti	6
Report of Directors	8
Ripoti ya Wakurugenzi	8
Auditors' Report	9
Profit and Loss Account	10
Balance Sheet	11
Cashflow Statement	12
Accounting Policies	13
Notes to the Profit and Loss Account	14
Notes to the Balance Sheet	15
Five Year Summary	18
Form of Proxy	
Notice of Meeting	(Inside back cover)

FINANCIAL CALENDAR

Annual General Meeting	held April 1997

Reports & Dividends:

Results for the year to 31 December 1997	announced February 1998
Report and Accounts to 31 December 1997	issued March 1998
Proposed final for the year to 31 December 1996	payable April 1997
Proposed final for the year to 31 December 1997	payable May 1998

SUBSIDIARY COMPANIES IN THE BAT KENYA LIMITED GROUP

All non-trading

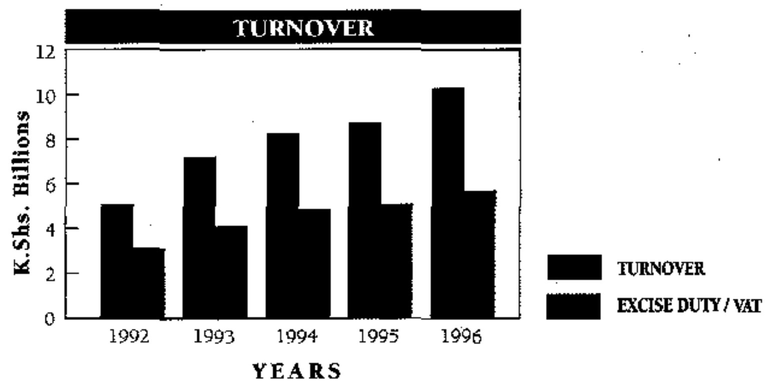
	% equity shares held
Kenya Tobacco Company Limited	100
African Cigarette Company (Overseas) Limited	100
East African Tobacco Company (Kenya) Limited	100

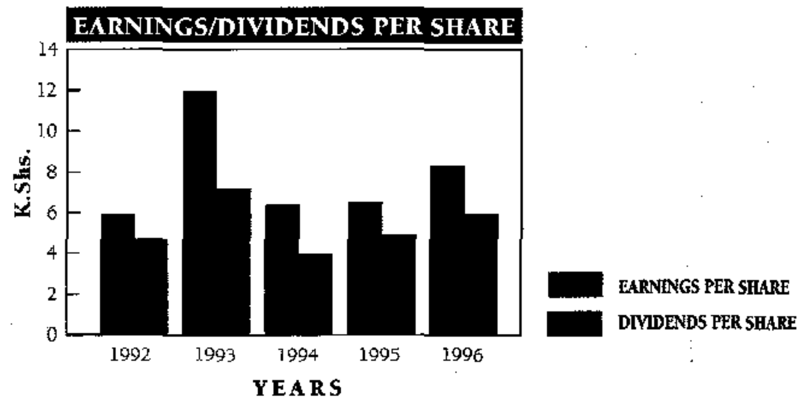
HIGHLIGHTS 1996

IMARA DAIMA

FINANCIAL

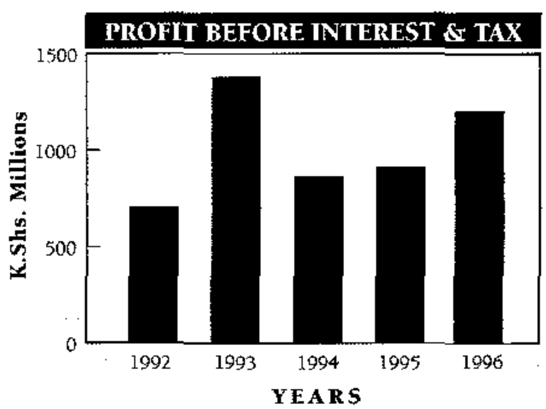
- Turnover grew by 17.7% to K.Shs. 10.4 billion.
- Profit before interest and tax up by 32.1% to K.Shs. 1.2 billion.
- Earnings per share increased by 27.6% to K.Shs. 8.42 per share.
- Profit before tax up from K.Shs. 824 million to K.Shs. 1.0 billion.
- Dividends up by 20% from K.Shs. 5 to K.Shs. 6 per share.
- Profit after tax up 27.5% to K.Shs. 631 million.





OPERATIONS

- Domestic sales volume grew by 5.8% as a result of strong investment behind our key brands.
- Sportsman and Embassy grew at high rates of 6.6% and 12.7% respectively.
- Cigarette productivity increased by 10% in the year.
- Increased leaf exports turnover of US$ 10.2 million as a result of a bumper leaf crop during the year.



IMARA DAIMA

BOARD OF DIRECTORS

***Mr. E. Mwaniki**
Chairman

Mr. J.D. Pike
Managing Director

Other Directors

*Mr. I. Hussain

Mr. M.S. Hayes

Mr. M.O. Owiti

*Mr. D.N. Berry

Mrs. B.A. Buyu

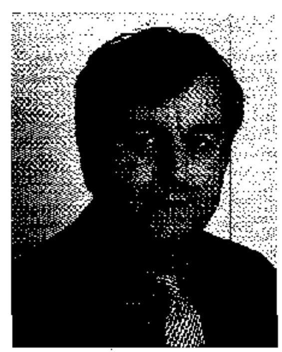
Mr. M.M. Wanyoike

Mr. M. J. Stevens

*Non-executive Directors

From left to right: M.S. Hayes (Finance Director), M.M. Wanyoike (Human Resources Director), B.

I. Hussain (Non-Executive Director)



D.N. Berry (Non-Executive Director)

d Marketing Director), M.O. Owiti (Production Director), E. Mwaniki (Chairman), J.D. Pike (Managing Director), M.J. Stevens (Leaf Director).

Audit Committee
E. Mwaniki
J.D. Pike
I. Hussain
M.S. Hayes
M.O. Owiti
A.M. Chowdhury

Secretary and Registered Office
J.N. Kiragu
Likoni Road
P.O. Box 30000, Nairobi

Transfer Agents
Standard Chartered Kenya Nominees Limited
P.O. Box 30003
Stanbank House
Moi Avenue, Nairobi

Auditors
Price Waterhouse
P.O. Box 41968, Nairobi

Advocates
Kaplan & Stratton
Queensway House
P.O. Box 40111, Nairobi

Bankers
Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081, Nairobi

Standard Chartered Bank Kenya Limited
Industrial Area
P.O. Box 18081, Nairobi

Barclays Bank Kenya Limited
Enterprise Road
P.O. Box 18060, Nairobi

Citibank N.A.
Wabera Street
P.O. Box 30711, Nairobi

CHAIRMAN'S REVIEW

The Kenyan economy in 1996 continued to experience the impact of both positive and inhibitive factors. Despite maintaining an upward trend, the average annual inflation was contained within the single digit target, while the Kenya shilling exchange rate was fairly stable against the major currencies. Interest rates however remained at very high levels (23 - 30%), and the general infrastructure continued to deteriorate. Power cuts, in particular, were a major disruptive factor especially in the industrial sector of the economy.

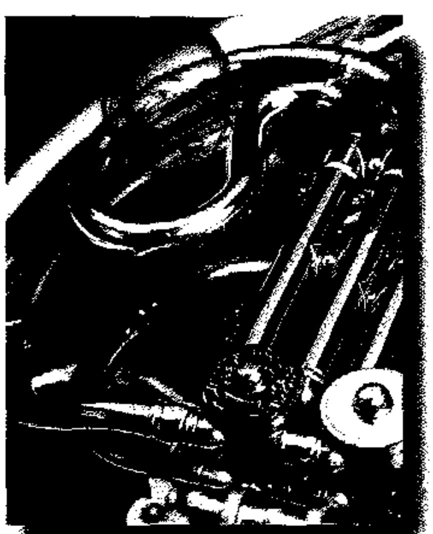
In addition to the impact of these factors, our Company continued to pay very high excise duty on cigarettes (the second highest in Africa). Furthermore, cigarettes were imported from Tanzania into Kenya under PTA rates while Kenyan exports to Tanzania were frustrated by the punitive import duties prevailing in that Country - an anomaly that needs to be addressed.

A new competitor - R.J. Reynolds - entered the Kenya market in early December with the launch of Aspen, a product which is manufactured in Tanzania. BAT Kenya is well prepared to meet any competition provided that such competition is on a level playing field, which it is not at the current time. We have raised this issue with both the Minister of Finance and the Minister of Commerce and Industry.

Overall Results

Profit before taxation of K.Shs.1,005 million grew by 22% compared with 1995. The strong growth reflects higher turnover achieved as a result of increased Leaf exports, price increases for some of the main brands, and economies of scale resulting from the record tobacco crop of 16 million kilogrammes grown in 1996.

The Company contribution to Government revenue in terms of Excise Duty and Value Added Tax rose by 13% to K.Shs. 5.7 billion. Including the Company taxation of K.Shs. 374 million, overall contribution to Government revenue reached a record of K.Shs. 6.1 billion.



The Company's contribution to Kenya's foreign exchange earnings from exports of cigarettes and leaf tobacco was US$22.7 million. This was markedly higher than its foreign exchange expenditure on raw materials and other imports.

Domestic and Export Cigarette Markets

Domestic sales in 1996 grew by 5.8% as a result of strong investment behind our key cigarette brands, increased direct store delivery, better merchandising and a more aggressive sales drive by a high calibre sales force. Consequently our share of the domestic market rose by just under 1%. Our key brands - Sportsman and Embassy - grew at higher rates of 6.6% and 12.7% respectively against an overall market growth of 3.4%. With the entry of international competitors, it will be prudent to continue investing in our key brands to further enhance consumer preference over the competing brands, and defend our market position.

Cigarette exports decreased due to instability in our traditional export markets, but we are working to redress this.

Tobacco Growing, Leaf Exports and Afforestation

In 1996, the Company's 20,000 contracted farmers produced a record crop of 16 million kilogrammes, compared to 11.1 million kilogrammes in 1995. In monetary terms, farmers earned K.Shs. 915 million, representing an increase of 40% over the 1995 earnings of K.Shs. 651 million.

Following the record 1996 crop, the Company exported 3,880 tons worth US $ 10.2 million (K.Shs. 566 million).

The afforestation programme continued to receive top priority to protect the environment and to safeguard the future of tobacco growing in Kenya. During the year the Company's contracted farmers planted a total of 6 million tree seedlings - a major contribution to the conservation of the environment. A survey of trees planted in all existing tobacco growing areas of Nyanza, Western and Eastern Provinces was undertaken by Moi University. It revealed that BAT Kenya had initiated the planting of over 40 million surviving trees of which 27 million were planted by the Company's contracted farmers.

Tobacco Processing and Manufacturing

Overall cigarette production in 1996 was 3.4% higher than the previous year. Cigarette productivity improved by 10% compared to the previous year. Our efforts to reduce production costs, however, were frustrated by power rationing at both the Thika Leaf Processing Plant and Nairobi Cigarette Factory.

Major improvements in product quality were realised through employee involvement in quality improvement teams, training of staff and improved maintenance of machinery.

A "Certificate of Excellence" was awarded to BAT Kenya by the International Public Relations Association for the Company produced video entitled *"Safety Starts with Me"*. An excellent safety record was maintained with zero accidents reported in Nairobi factory for the whole year. As a result, the Company won the "BAT Award for Environment, Health and Safety Management" for meritorious performance.

Human Resources

BAT's major objective is to ensure that managers in key functions are first class. To this end, Succession and Career Planning continues to be given greater attention through systematic reviews, held twice a year, in Career Development Meetings. During the year a PC based computer system was installed to ensure consistent application of planning and development processes.

The BAT global graduate recruitment programme was put in place during the year. This programme is aimed at improving the quality of management and meeting future human resource requirements in an increasingly competitive business environment. BAT Kenya recruited 11 talented young managers who will be trained to a BAT standard of excellence that will help them meet the business challenges of the future. It is expected that, in the medium to long term, 80% of management vacancies within the Company will be filled by "home-grown" talent.

Consumer and Regulatory Affairs

Following the re-organisation of British American Tobacco Holdings, the Consumer and Regulatory

His Excellency President Daniel Arap Moi is shown exhibits during the Nyanza Province Jua Kali Exhibition, at the Jomo Kenyatta Sportsground, Kisumu. Looking on is the Vice President, Hon. Prof. George Saitoti.

Affairs Department (CORA) was formed, replacing the former Corporate Affairs Department. The global role of CORA is to deal with the Company's position on environmental and smoking issues, marketing and consumer freedoms, excise, political and government relations and corporate communication. CORA strategies have been implemented at local and regional levels to ensure that BAT is more responsive to the needs of the end markets and that country managers have the support of scientific, legal and marketing experts working in co-ordinated teams.

The Company's promotion of the Jua Kali sector continued with the successful staging of the Nyanza Province Jua Kali exhibition held in Kisumu. His Excellency President Daniel arap Moi and senior members of the Kenya Government graced the well- attended exhibition.

Dividends

Last December an interim dividend of K.Shs.2/- per share was paid. Your Board is recommending a final dividend of K.Shs.4/- per share for approval at the forthcoming Annual General Meeting. If approved, this will bring the total dividend distribution to K.Shs.6/- per share which is a 20% improvement over 1995.

I will comment on the prospects of 1997 in my speech at the Annual General Meeting to be held in April this year.

Finally, I would like to express my sincere thanks to all the directors and staff, for their dedication and tireless effort in managing the Company so efficiently.

Evanson Mwaniki

RIPOTI YA MWENYEKITI

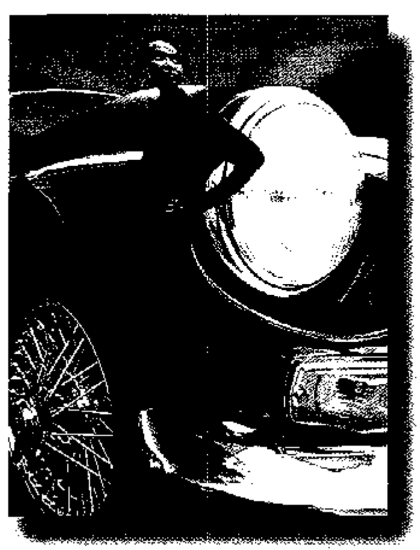
Uchumi wa Kenya mwaka wa 1996 ulifanikiwa ingawaje ulikumbwa na matatizo kadha wa kadha. Ingawa uchumi huo uliimarika, ule mfumuko wa mwaka wa ghafula wa bei za bidhaa ulipungua kwa kiwango cha chini, ili hali kiwango cha ubadilishaji wa shilingi ya Kenya ulikuwa shwari kidogo ukilinganishwa na sarafu nyingine za kigeni. Ingawaje viwango vya riba vilibaki kwa kima za juu (asilimia 23 hadi 30), na mtindo huo uliendelea kudidimika. Kukatwa kwa stima hasa ni jambo kubwa lililotatiza sekta za uchumi viwandani.

Zaidi za shinikizo za matatizo hayo, Kampuni yetu iliendelea kulipa kodi zaidi ya forodhani kwa sigara (ambacho ni kiwango cha pili cha juu katika Afrika). Zaidi ya hayo, sigara ziliingizwa nchini Kenya kutoka Tanzania chini ya vile viwango vya biashara nafuu vya PTA ili hali bidhaa za Kenya zinazoingizwa nchini kutoka Tanzania ziliathiriwa na kiwango cha juu cha kodi za kuingiza bidhaa nchini humo - na hili ni jambo linalostahili kujadiliwa.

Mshindani mpya - R.J. Reynolds - aliingia soko la Kenya mapema mwezi Desemba akizindua Aspen, sigara inayotengenezwa Tanzania. BAT Kenya i tayari kupambana vilivyo na shindano kama hilo, bora tu shindano hilo linafanywa kwa haki, na kwa kweli hapana haki kwa wakati huu. Tumezungumzia jambo hili na Waziri wa Fedha na Waziri wa Biashara na Viwanda.

Matokeo kwa jumla

Faida kabla ya kutoa fungu la kodi ya shilingi milioni 1,005 iliongezeka kwa asilimia 22 ikilinganishwa na mwaka 1995. Imarisho hilo laonyesha kipato cha juu zaidi kilichopatikana kutokana na kiasi cha tumbaku, kilichouzwa nje, kuongezeka kwa bei dhidi ya baadhi za chapa maarufu, na uchumi mzuri uliotokana na mavuno makubwa ya tumbaku ya kilo milioni 16 yaliyokuzwa mwaka 1996. Mchango wa Kampuni kwa Serikali mintarafu za kodi ya forodhani na VAT uliongezeka kwa asilimia 13 hadi shilingi bilioni 5.7. Pamoja na kodi ya Kampuni ya shilingi milioni 374, jumla ya mapato ya mchango wa Serikali ilivunja rekodi kwa kufikia shilingi bilioni 6.1.



Mchango wa Kampuni kuhusu fedha za kigeni zilizotokana na uuzaji wa sigara na tumbaku ulikuwa Dola za Marekani milioni 22.7. Mapato haya yalizidi ile gharama iliyotumika kuagiza nchini malighafi na vitu vingine vilivyoletwa nchini kutoka ng'ambo.

Mauzo ya sigara humu nchini na pia nchi za nje

Mauzo ya humu nchini mwaka 1996 yaliongezeka kwa asilimia 5.8 kwa ajili ya kiasi kikubwa cha fedha kilichotumika kuimarisha chapa maarufu za sigara, mfumo ulioimarishwa wa kupeleka bidhaa moja kwa moja hadi kwenye mabohari, chumo bora na sera murua ya kuuza bidhaa ikiendeshwa na wauzaji wa hali ya juu. Hatimaye kiwango chetu cha soko la humu nchini kikaongezeka kwa kiasi kidogo cha asilimia 1. Chapa zetu maarufu-Sportsman na Embassy - ziliongezeka kwa viwango vya juu vya asilimia 6.6 na 12.7 kwa kufuatana na kukabiliana na ongezeko la soko la asilimia 3.4. Kwa vile kuingiliwa kwa soko la kimataifa, itakuwa ni jambo la busara kuendelea kutumia fedha kuimarisha chapa zetu maarufu za sigara ili kuwafanya wateja watamani zaidi chapa za bidhaa zetu, baadhi ya bidhaa nyingine na kutoka hapo tuendelee kuhifadhi soko letu.

Mauzo ya sigara nchi za nje yalipungua kwa ajili ya ukosefu wa Uthabiti katika masoko yetu ya kawaida huko ng'ambo, ingawaje tunajibidiisha kutatua jambo hili.

Ukuzaji na uuzaji wa Tumbaku nje na Misitu

Mwaka 1996, wakuzaji 20,000 wa tumbaku waliopewa kandarasi walikuza mavuno yaliyovunja rekodi ya kilo milioni 11.1 mwaka 1995. Tukitia maanani fedha zilizohusika, wakuzaji walipata shilingi milioni 915, ambayo ni sawa na asilimia 40 zaidi ya mapato ya mwaka 1995 ya shilingi milioni 651. Kufuata mavuno yaliyovunja rekodi ya mwaka 1996, Kampuni iliuza nje bidhaa za tani 3,880 zenye thamani ya Dola za Marekani milioni 10.2 (shilingi milioni 566). Mradi wa upanzi wa miti uliendelea kupewa umuhimu wa juu ili kuhifadhi mazingira na pia kulinda ukuzaji wa tumbaku nchini Kenya siku za usoni. Mwakani wakuzaji wa Kampuni waliopewa kandarasi walipanda jumla ya miche milioni 6 ya miti - huo ulikuwa mchango mkubwa mintarafu ya hifadhi ya mazingira. Ukaguzi dhidi ya miti iliyopandwa katika maeneo yote yanayokuzwa miti katika mikao ya Nyanza, Magharibi na Mashariki ulifanywa na Moi University.

Ukaguzi huu ulidhihirisha kwamba BAT Kenya ilianza harakati za kupanda zaidi ya miti milioni 40 iliyostawi, na kati ya idadi hiyo, miti milioni 27 ilipandwa na wakulima waliopewa kandarasi na Kampuni.

Uchambuzi wa tumbaku na utengenezaji

Uzalishaji wa jumla wa sigara mwaka 1996 ulikuwa asilimia 3.4 zaidi ya mwaka uliopita. Faida kutokana na sigara iliimarika kwa asilimia 10 ikilinganishwa na mwaka uliopita. Juhudi zetu za kupunguza gharama za uzalishaji, ziliathiriwa, ingawaje, na kupunguzwa kwa nguvu za stima kwenye kiwanda cha kuchambua tumbaku Thika na kile cha kutengeneza sigara Nairobi.

Uimarishi mkubwa dhidi ya ubora wa bidhaa ulitekelezwa kwa kuwatumia wafanyakazi wenye ujuzi mwingi, mafunzo ya wafanyakazi na pia usimamizi bora wa mashine.

Shahada ya ubora ilitunukiwa BAT Kenya na Chama cha Kimataifa cha Mambo ya Uma kwa filamu ya video iitwayo *"Usalama Waanzia Nami"*.

Rekodi nzuri ya usalama kazini iliwekwa na hakuna ajali iliyotokea katika kiwanda cha Nairobi kwa mwaka huo mzima. Kwa minajili hiyo Kampuni ilitunukiwa shahada kwa kazi nzuri kuhusu mazingira, afya na usimamizi mzuri wa usalama.

Idara ya wafanyakazi

Shabaha kubwa ya BAT ni kuhakikisha kwamba mameneja wanaoshughulika na kazi muhimu ni watu wenye ujuzi mkubwa. Mwongozo wa taratibu za kazi unaendelea kutiwa maanani zaidi kwenye mikutano ya taratibu za mpango wa kazi inayofanywa mara mbili kila mwaka. Mpango unaotumia ujuzi wa Komputa ndogo ulianzishwa mwakani ili kutimiza uthabiti wa taratibu za kazi.

Mradi wa ulimwengu mzima wa kuajiri waliohitimu digrii ulitekelezwa mwakani. Mradi huu una shabaha ya kuimarisha ujuzi wa mameneja na pia kuwawezesha kupambana na mahitaji ya wafanyakazi katika mazingira ya kibiashara yaliyo na mashindano makali. BAT Kenya iliwaajiri mameneja 11 vijana wenye maarifa mengi ambao watafundishwa wawe na kima cha juu cha ujuzi cha BAT ili kuikumba yale mashindano makali ya siku za usoni. Inatumainiwa kwamba, kwa kipindi kifupi na kile cha kudumu, asilimia 80 ya kazi za umeneja katika Kampuni zitachukuliwa na watu wa mumu humu walio na ujuzi mwingi.

Sura ya Kampuni

Kufuatia kuundwa upya kwa British American Tobacco Holdings, Idara iitwayo Consumer and Regulatory Affairs Department (CORA) iliundwa, ili kupambana na hali ya Kampuni dhidi ya mambo ya mazingira na uvutaji sigara, uhuru wa biashara, mahitaji ya wateja, kodi ya forodhani, uhusiano wa kisasa na Serikali na pia uhusiano wa makampuni. Mpango wa CORA umetekelezwa nchini na kuingineko kandani kuhakikisha kwamba BAT inaelewa zaidi mahitaji ya masoko yake na kwamba mameneja walioko mashambani wanasaidiwa na wataalamu wa kisayansi, wa kisheria na wale wenye ujuzi wa uuzaji wakishirikiana na wafanyakazi wenye maarifa mengi.

Harakati za Kampuni za kuimarisha sekta ya Jua Kali ziliendelea kwa kuandaa yale maonyesho ya Jua Kali yaliyofanywa huko Kisumu yaliyofana sana. Mtukufu Rais Daniel arap Moi na maafisa wengine wakuu wa Serikali walihudhuria maonyesho haya.

Migawo

Mgawo wa muda wa shilingi 2/= kwa kila hisa ulilipwa Desemba mwaka uliopita. Halmashauri yenu inapendekeza mgawo wa mwisho wa shilingi 4/= kwa kila hisa upewe kibali kwenye Mkutano ujao Mkuu wa Mwaka. Pendekezo hili likikubaliwa, litafanya jumla ya migawo iliyogawanywa kuwa shilingi 6/= kwa kila hisa ambayo ni asilimia 20 kushinda ile migawo ya mwaka 1995.

Nitazungumzia matumainio ya mwaka 1997 katika hotuba yangu kwenye Mkutano Mkuu wa Mwaka ambao utafanywa Aprili mwaka huu.

Mwisho, ningependa kutoa shukrani zangu kubwa kwa wakurugenzi wote na wafanyakazi, kwa juhudi zao za kusimamia vizuri zaidi Kampuni yetu.

Evanson Mwaniki

REPORT OF DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Accounts for the year ended 31 December 1996.

	K.Shs.'000	K.Shs.'000
Profit and Appropriations		
Profit after taxation available for appropriation		631,181
Appropriated as follows:		
Dividends:		
Interim dividend of K.Shs. 2.00 per share	150,000	
Proposed Final dividend of K.Shs. 4.00 per share	300,000	450,000
Retained Profit		181,181

Board of Directors

The following changes have taken place in the Board of Directors since the last Annual General Meeting.

Mr. J.D. Pike was appointed on 11.9.96.

Mr. N. Davis resigned on 11.9.96.

Mr. J.B. Wanjui was appointed on 1.2.97.

Mr. M.J. Stevens resigned on 12.2.97.

In accordance with Article 89 of the Articles of Association Messrs E. Mwaniki and M.S. Hayes retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 95 of the Articles of Association Messrs J.D. Pike and J.B. Wanjui retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

Auditors

Messrs Price Waterhouse will continue in office in accordance with section 159(2) of the Companies Act.

10 March 1997
Likoni Road
P.O. Box 30000, Nairobi

By Order of the Board
J.N. Kiragu
Secretary

RIPOTI YA WAKURUGENZI

Wakurugenzi wanafurahia kutoa Ripoti yao na Hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 1996.

	K.Shs.'000	K.Shs.'000
Faida iliyopatikana na ilivyogawanywa		
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa		631,181
Iligawanywa ifuatavyo:		
Migawo ya faida kwa wenyehisa:		
Mgawo wa muda wa K.Shs. 2.00 kwa kila hisa	150,000	
Mgawo wa mwisho unaopendekezwa wa K.Shs. 4.00	300,000	450,000
Faida iliyowekwa Akiba		181,181

Halmashauri ya Wakurugenzi

Tangu Mkutano Mkuu wa Mwaka jana mabadiliko yafuatayo yalitokea katika Halmashauri ya wakurugenzi.

Bw. J.D. Pike aliteuliwa tarehe 11.9.96.

Bw.N. Davis alijiuzulu tarehe 11.9.96 .

Bw. J.B. Wanjui aliteuliwa tarehe 1.2.97.

Bw. M.J. Stevens alijiuzulu tarehe 12.2.97.

Kwa mujibu wa kifungu cha 89 cha Katiba ya Kampuni Mabw. E. Mwaniki na M.S. Hayes watastaafu kwa zamu katika Mkutano Mkuu wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu cha 95 cha Katiba ya Kampuni Mabw. J.D. Pike na J.B. Wanjui watastaafu kutoka kwa Halmashauri katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Wakaguzi wa Hesabu

Price Waterhouse wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu cha 159(2) cha Sheria za Makampuni.

Machi 10, 1997
Likoni Road
P.O. Box 30000, Nairobi

Kwa Amri ya Halmashauri
J.N. Kiragu.
Katibu

Auditors' Report to the members of BAT Kenya Limited

1. We have audited the financial statements set out on pages 10 to 17 which have been prepared on the basis of the accounting policies set out on page 13. We obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and to provide a reasonable basis for our opinion. The financial statements are in agreement with the books of account.

2. The directors are responsible for the preparation of accounts which give a true and fair view of the company's state of affairs and its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

3. We conducted our audit in accordance with Kenyan Auditing Standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. 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.

4. 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 company's financial affairs as at 31 December 1996 and of its profit and cash flows for the year then ended in accordance with Kenyan Accounting Standards and comply with the Companies Act.

Price Waterhouse
Certified Public Accountants
Nairobi **10 March 1997**

PROFIT & LOSS ACCOUNT

Including the Statement of Retained Profit

FOR THE YEAR ENDED 31 DECEMBER

	Note	1996 K.Shs.'000	1995 K.Shs.'000
Turnover		10,364,064	8,808,568
Excise Duty/V.A.T		5,742,478	5,080,114
Net turnover		4,621,586	3,728,454
Profit before taxation	1	1,005,345	824,325
Taxation	2	374,164	329,348
Profit after taxation		631,181	494,977
Dividends		**450,000**	**375,000**
Total interim of K.Shs. 2.00 per share		150,000	112,500
Proposed final of K.Shs. 4.00 per share		300,000	262,500
Retained profit for the year	12	**181,181**	**119,977**

STATEMENT OF RETAINED PROFIT

	Note	1996 K.Shs.'000	1995 K.Shs.'000
At 1 January		711,218	591,241
Retained profit for the year		181,181	119,977
At 31 December	12	892,399	711,218
Earnings per share (K.Shs.)	3	**8.42**	**6.60**

BALANCE SHEET

AS AT 31 DECEMBER

	Note	1996 K.Shs.'000	1995 K.Shs.'000
Fixed Assets	5	2,573,762	2,585,662
Current Assets			
Stocks	6	2,154,495	1,795,954
Debtors	7	1,513,865	1,065,274
Cash at bank and in hand		89,287	175,732
		3,757,647	3,036,960
Current Liabilities			
Creditors		1,131,788	1,070,909
Inter-company accounts	8	73,086	11,748
Borrowings	9	1,140,580	740,011
Taxation		69,582	26,731
Dividends - *(Gross)*		300,304	338,335
		2,715,340	2,187,734
Net Current Assets		1,042,307	849,226
Net Assets		3,616,069	3,434,888
Financed by:			
Share capital	10	750,000	750,000
Capital reserve	11	1,973,670	1,973,670
Retained profit	12	892,399	711,218
Funds Employed		3,616,069	3,434,888

The accounts on pages 10 to 17 were approved by the Board of Directors on 10 March 1997 and were signed on its behalf by:

J.D. Pike Director

M.S. Hayes Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	1996 K.Shs.'000	1995 K.Shs.'000
Cash flows from operating activities		
Profit before taxation	1,005,345	824,325
Adjustments for:		
Depreciation	241,349	265,723
Gain on disposal of fixed assets	(38,610)	(26,391)
Interest income	(408)	(522)
Interest expense	202,738	90,248
Operating profit before working capital changes	1,410,414	1,153,383
Trade and other debtors	(448,592)	(10,224)
Stocks	(358,540)	(511,008)
Trade creditors and inter-company accounts	122,217	(56,132)
Cash generated from operations	725,499	576,019
Income taxes paid	(331,313)	(336,760)
Net cash flow from operating activities	394,186	239,259
Return on investments and servicing of finance		
Interest received	408	522
Interest paid	(202,738)	(90,248)
Dividends paid	(488,031)	(297,268)
Net cash outflow from investments and servicing of finance	(690,361)	(386,994)
Cash flows from investing activities		
Purchase of fixed assets	(251,888)	(81,409)
Proceeds from sale of fixed assets	61,049	52,612
Net cash outflow from investing activities	(190,839)	(28,797)
Net decrease in cash and cash equivalents	(487,014)	(176,532)
Cash and cash equivalents at beginning of year	(564,279)	(387,747)
Cash and cash equivalents at end of year	**(1,051,293)**	**(564,279)**

ACCOUNTING POLICIES

(a) Basis of Preparation of the Accounts

The accounts are prepared in accordance with the historical cost convention, which permits the inclusion of certain assets at valuation.

(b) Turnover

Turnover represents sales to external customers and includes excise duty and value added tax.

(c) Depreciation

Depreciation is not provided on freehold land or long leasehold land with unexpired terms of more than 40 years.

Depreciation on the remaining fixed assets is calculated to write off the cost or valuation to their estimated residual values over their expected useful lives by equal annual instalments at the following rates:-

Short leasehold land (less than 40 years)	Over the unexpired period of the lease
Freehold buildings	2½ %
Leasehold buildings	2½-10% or over the period of the lease if less than 40 years
Plant, machinery, vehicles and equipment	7% to 30% depending on the type of asset.

(d) Stocks

Stocks are stated at the lower of weighted average cost and estimated net realisable value. For tobacco products, cost includes materials, labour and factory overheads.

(e) Current Taxation

Current taxation is provided for on the basis of the results for the year as shown in the accounts, adjusted in accordance with tax legislation.

(f) Deferred Taxation

Deferred taxation is provided for using the liability method on differences which may arise from timing between the treatment of certain items for accounting and taxation purposes, except where differences are not expected to reverse in the foreseeable future.

(g) Foreign Currencies

All assets and liabilities expressed in foreign currencies are converted into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are converted at the rates ruling at the date of transaction. The resulting differences from conversion are dealt with in the profit and loss account in the year in which they arise.

(h) Unfunded Retirement Benefit Scheme

Provision is made for the potential liability arising from an unfunded retirement benefit scheme. The adequacy of such provision is confirmed periodically by independent actuarial valuations.

IMARA DAIMA

FOLD 2
KISHA KUNJA HAPA

AFFIX
STAMP

COMPANY SECRETARY
BAT KENYA LIMITED
P.O. BOX 30000
NAIROBI

FOLD 1
KUNJA HAPA KWANZA

FOLD 3
HALAFU KUNJA HAPA

INSERT FLAP INSIDE
SASA INGIZA, SEHEMU HII YA KARATASI YA MKUNJO NDANI ILI IONEKANE KAMA BAHASHA

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6. Stocks

	1996 K.Shs.'000	1995 K.Shs.'000
Raw materials	1,794,049	1,528,522
Finished goods and work in progress	205,538	110,381
Consumable stores	154,908	157,051
	2,154,495	1,795,954

7. Debtors

Included in debtors is a sum of K.Shs. 25.1 million (1995, K.Shs. 278.6 million) advanced to a related company, Imara Daima Housing Development Company Limited, to finance the development of residential housing for BAT Kenya Limited staff and the general public.

8. Inter-company accounts

	1996 K.Shs.'000	1995 K.Shs.'000
Amounts due to:		
Holding company	86,722	7,427
Fellow subsidiaries	(13,636)	4,321
	73,086	11,748

The amounts due to the holding company and from fellow subsidiaries represent outstanding obligations in respect of purchases of raw materials and provision of services transacted on terms similar to those from unrelated parties.

9. Borrowings

	1996 K.Shs.'000	1995 K.Shs.'000
Commercial paper	380,101	–
Bank borrowings	760,479	740,011
	1,140,580	740,011

Commercial paper is short term finance issued at a discount. The discount is recognised over the period of the issue. The amount shown above is the discounted value and accrued interest at 31 December 1996. The face value of the Commercial paper at 31 December 1996 was K.Shs. 384.0m (1995, nil).

10. Share capital

	1996 K.Shs.'000	1995 K.Shs.'000
Authorised, issued and fully paid		
75,000,000 Ordinary Shares of K.Shs. 10 each	750,000	750,000

11. Capital reserves

	1996 K.Shs.'000	1995 K.Shs.'000
At 31 December	1,973,670	1,973,670

Included in capital reserves is a share premium of K.Shs. 23,000.

12. Retained profit

	1996 K.Shs.'000	1995 K.Shs.'000
At 1 January	711,218	591,241
Retained profit for the year	181,181	119,977
At 31 December	892,399	711,218

13. Deferred taxation

In accordance with note(f) in the Accounting Policies, no provision for deferred taxation is required. The amount of the potential deferred tax liability not provided for in the accounts is as follows:

	K.Shs.'000
At 1 January 1996	189,144
Arising in the year	16,345
At 31 December 1996	205,489

14. Capital commitments

	1996 K.Shs.'000	1995 K.Shs.'000
Amounts authorised by the Directors but not provided for in these accounts are:	175,437	402,113
of which contracts have been placed for:	158,025	64,857

15. Holding company

BAT Kenya Limited's ultimate holding company is British-American Tobacco (Holdings) Limited which is incorporated in the United Kingdom.

IMARA DAIMA

FOLD 2
KISHA KUNJA HAPA

AFFIX
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