BRITISH AMERICAN TOBACCO KENYA LIMITED
Directors' Report & Accounts 1999

BRITISH AMERICAN TOBACCO
KENYA

Contents

Directors and Advisors

Mr. E. Mwaniki*
Chairman

Mr. J.D. Pike
Managing Director

Other Directors

Mr. T. D. McConnell
Mr. M. O. Owiti
Mr. M. M. Wanyoike
Mr. J. B. Wanjui*
Mr. E. Watt*

**Non – Executive Directors*

Audit Committee

Mr. E. Mwaniki
Mr. E. Watt
Mr. J. D. Pike
Mr. T. D. McConnell
Mr. M. O. Owiti
Mr. A. Wainaina
Mr. F. Kimondiu
Mrs. J. Rempt
Mr. J. Muganda

Secretary and Registered Office

Mr. J.N. Kiragu
Likoni Road
P.O. Box 30000, Nairobi

Transfer Agents

Barclays Advisory & Registrar Services Limited
Barclays Plaza, Loita Street
P.O. Box 30120, Nairobi

Auditors

PricewaterhouseCoopers
Rahimtulla Towers, Upper Hill Road
P.O. Box 43963, Nairobi

Advocates

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

Bankers

Barclays Bank of Kenya Limited

Standard Chartered Bank Kenya Limited

Citibank N.A.

Commercial Bank of Africa Limited

Kenya Commercial Bank Limited

ABN-Amro Bank

Stanbic Bank Kenya Limited

2007/0728

Report of **Directors**

The Directors have pleasure in submitting their Report and the Audited Accounts for the year ended 31 December 1999.

Principal activities
The principal actitivities of the Group are the manufacture and sale of cigarettes and tobaccos.

Results and dividends

	K.Shs. '000
Profit after taxation available for appropriation	1,194,167
Appropriated as follows:	
Dividends:	
Interim dividend of K.Shs 2.50 per share	187,500
Proposed final dividend of K.Shs 8.00 per share	600,000
	787,500
Retained Profit	406,667

Board of Directors
The Directors of the company as at 31 December 1999 are listed on page 2.

Mr. S. Jurgens resigned on 25 May 1999.

In accordance with Article 89 of the Articles of Association Messrs. J.D. Pike, M.M. Wanyoike and M.O. Owiti retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Auditors
The Auditors, PricewaterhouseCoopers, will continue in office in accordance with section 159(2) of the Companies Act.

15 March, 2000
Likoni Road
P.O. Box 30000, Nairobi

By order of the Board
J.N. Kiragu
Company Secretary

Ripoti ya **Wakurugenzi**

Wakurugenzi wanafurahia kutoa Ripoti yao na Hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 1999.

Shughuli muhimu za Kundi la Makampuni
Shughuli muhimu za kundi la makampuni ni utengenezaji na uuzaji wa sigara na tumbaku.

Faida iliyopatikana na ilivyogawanywa

	K.Shs.'000
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa	1,194,167
Iligawanywa ifuatavyo:	
Migawo ya faida kwa wenyehisa:	
Mgawo wa muda wa K.Shs. 2.50 kwa kila hisa	187,500
Mgawo wa mwisho unaopendekezwa wa K.Shs 8.00 kwa kila hisa	600,000
	787,500
Faida iliyowekwa Akiba	406,667

Halmashauri ya Wakurugenzi
Wakurugenzi wa kampuni hapo Desemba 31 1999 wameonyeshwa katika ukurasa wa pili.

Bw. S. Jurgens alijiuzulu tarehe Mai 25, 1999.

Kwa mujibu wa kifungu cha 89 cha Katiba ya Kampuni Mabw. J.D. Pike, M.M. Wanyoike na M.O. Owiti watastaafu kwa zamu katika Mkutano Mkuu wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Wakaguzi wa Hesabu
PricewaterhouseCoopers wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu cha 159(2) cha Sheria za Makampuni.

Machi 15, 2000
Likoni Road
P.O. Box 30000, Nairobi

Kwa amri ya Halmashauri
J.N. Kiragu
Katibu wa Kampuni

Report of the Auditors to the members of British American Tobacco Kenya Limited

We have audited the financial statements set out on pages 5 to 20. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the group and the company and of the profit or loss. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

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

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and the company as at 31 December 1999 and of the profit and cash flows of the group for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

15 March 2000

Consolidated Profit and Loss Account

For the year ended 31 December

	Notes	1999 K.Shs.'000	1998 As restated K.Shs.'000
Gross turnover	1	**11,037,539**	**11,726,706**
Excise duty & VAT		(5,702,489)	(5,999,486)
Net turnover		**5,335,050**	**5,727,220**
Cost of operations	2	(3,643,744)	(3,934,060)
Other operating income		126,569	32,116
Operating profit	3	**1,817,875**	**1,825,276**
Finance income/(costs)	5	13,360	(73,486)
Profit before taxation		**1,831,235**	**1,751,790**
Taxation	6	(637,068)	(628,516)
Profit after taxation		**1,194,167**	**1,123,274**
Dividends *(Gross)*	**7**	**(787,500)**	**(562,500)**
Retained profit for the year		**406,667**	**560,774**
Earnings per share (K.Shs.)	8	**15.92**	**14.98**

Consolidated Balance Sheet

As at 31 December

	Notes	1999	1998 As restated
		K.Shs.'000	K.Shs.'000
Non–current assets			
Property, plant and equipment	9	3,542,616	3,068,361
Current assets			
Stocks	10	2,519,864	2,049,742
Debtors	11	818,978	1,027,707
Tax recoverable		76,528	—
Cash and bank balances		419,441	319,914
		3,834,811	3,397,363
Current liabilities			
Creditors	13	987,065	1,381,964
Inter-company accounts	14	70,211	11,186
Bank overdrafts		287,725	—
Tax payable		—	242,888
Dividends *(Gross)*		606,190	393,558
		1,951,191	2,029,596
Net current assets		1,883,620	1,367,767
Total assets less current liabilities		**5,426,236**	**4,436,128**
Non-current liabilities			
Retirement benefit obligations	15	91,260	50,291
Deferred tax	16	376,502	291,702
Net assets		4,958,474	4,094,135
Financed by:			
Share capital	17	750,000	750,000
Share premium		23	23
Revaluation reserves	18	1,526,041	1,190,250
Retained earnings		2,682,410	2,153,862
Shareholders' funds		4,958,474	4 ,094,135

The accounts on pages 5 to 20 were approved by the Board of Directors on 15 March 2000 and were signed on its behalf by:

J.D. Pike Director

T.D McConnell Director

376502
91260
467762

291702
50291
341993

Company Balance Sheet

As at 31 December

	Notes	1999	1998 As restated
		K.Shs.'000	K.Shs.'000
Non–current assets			
Property, plant and equipment	9	3,542,616	3,068,361
Investment in subsidiary		12,000	12,000
		3,554,616	3,080,361
Current assets			
Stocks	10	2,519,864	2,049,742
Debtors	11	696,771	996,659
Inter-company accounts	14	38,946	—
Tax recoverable		175,006	—
Cash and bank balances		293,761	266,994
		3,724,348	3,313,395
Current liabilities			
Creditors	13	958,813	1,360,144
Inter-company accounts	14	—	677,041
Bank overdrafts		287,725	—
Tax payable		—	10,187
Dividends *(Gross)*		606,190	393,558
		1,852,728	2,440,930
Net current assets		1,871,620	872,465
Total assets less current liabilities		**5,426,236**	**3,952,826**
Non-current liabilities			
Retirement benefit obligations	15	91,260	50,291
Deferred tax	16	376,502	291,702
Net assets		4,958,474	3,610,833
Financed by:			
Share capital	17	750,000	750,000
Share premium		23	23
Revalution reserves	18	1,526,041	1,190,250
Retained earnings		2,682,410	1,670,560
Shareholders' funds		4,958,474	3,610,833

The accounts on pages 5 to 20 were approved by the Board of Directors on 15 March 2000 and were signed on its behalf by :

J.D. Pike Director

T.D. McConnell Director

Consolidated Statement of Changes in Equity

	Notes	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
		K.Shs.'000	K.Shs.'000	K.Shs.'000	K.Shs.'000	K.Shs.'000
Balance at 1 January 1998						
As previously stated		750,000	23	1,964,952	1,076,448	3,791,423
Prior year adjustments:						
- excess depreciation	18	—	—	(656,847)	656,847	—
- deferred tax	16	—	—	(58,522)	(214,743)	(273,265)
As restated		750,000	23	1,249,583	1,518,552	3,518,158
Excess depreciation transfer	18	—	—	(74,536)	74,536	—
Deferred tax on revaluation	16	—	—	15,203	—	15,203
Total gains and losses not recognised in the profit and loss account		—	—	(59,333)	74,536	15,203
Retained profit for the year		—	—	—	560,774	560,774
Balance at 31 December 1998		750,000	23	1,190,250	2,153,862	4,094,135
Balance at 1 January 1999						
As previously stated		750,000	23	1,964,952	1,670,862	4,385,837
Prior year adjustments:						
- excess depreciation	18	—	—	(731,383)	731,383	—
- deferred tax	16	—	—	(43,319)	(248,383)	(291,702)
As restated		750,000	23	1,190,250	2,153,862	4,094,135
Revaluation surplus	18	—	—	479,966	—	479,966
Deferred tax on revaluation	16	—	—	(22,294)	—	(22,294)
Excess depreciation transfer	18	—	—	(121,881)	121,881	—
Total gains and losses not recognised in the profit and loss account		—	—	335,791	121,881	457,672
Retained profit for the year		—	—	—	406,667	406,667
Balance at 31 December 1999		750,000	23	1,526,041	2,682,410	4,958,474

Company Statement of Changes in Equity

	Notes	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
		KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Balance at 1 January 1998						
As previously stated		750,000	23	1,964,952	1,076,448	3,791,423
Prior year adjustments:						
- excess depreciation	18	—	—	(656,847)	656,847	—
- deferred tax	16	—	—	(58,522)	(214,743)	(273,265)
As restated		750,000	23	1,249,583	1,518,552	3,518,158
Excess depreciation transfer	18	—	—	(74,536)	74,536	—
Deferred tax on revaluation	16	—	—	15,203	—	15,203
Total gains and losses not recognised in the profit and loss account		—	—	(59,333)	74,536	15,203
Retained profit for the year		—	—	—	77,472	77,472
Balance at 31 December 1998		750,000	23	1,190,250	1,670,560	3,610,833
Balance at 1 January 1999						
As previously stated		750,000	23	1,964,952	1,187,560	3,902,535
Prior year adjustments:						
- excess depreciation	18	—	—	731,383)	731,383	—
- deferred tax	16	—	—	(43,319)	(248,383)	(291,702)
As restated		750,000	23	1,190,250	1,670,560	3,610,833
Revaluation surplus	18	—	—	479,966	—	479,966
Deferred tax on revaluation	16	—	—	(22,294)	—	(22,294)
Excess depreciation transfer	18	—	—	(121,881)	121,881	—
Total gains and losses not recognised in the profit and loss account		—	—	335,791	121,881	457,672
Retained profit for the year		—	—	—	889,969	889,969
Balance at 31 December 1999		750,000	23	1,526,041	2,682,410	4,958,474

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	1999 K.Shs.'000	1998 K.Shs.'000
Operating activities			
Cash generated from operations	21	1,525,600	2,104,656
Interest received		8,754	17,803
Interest paid		(44,827)	(86,191)
Tax paid		(893,979)	(308,029)
Net cash from operating activities		595,548	1,728,239
Investing activities			
Purchase of property, plant and equipment		(250,377)	(566,464)
Proceeds from disposals of property, plant and equipment		41,499	102,309
Net cash used in investing activities		(208,878)	(464,155)
Financing activities			
Dividends paid		(574,868)	(475,107)
Net cash used in financing activities		(574,868)	(475,107)
(Decrease) /increase in cash and cash equivalents		(188,198)	788,977
Movement in cash and cash equivalents:			
At 1 January		319,914	(469,063)
(Decrease)/ increase		(188,198)	788,977
At 31 December	12	**131,716**	**319,914**

Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards, which have been adopted with effect from 1 January 1999. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets. With the exception of International Accounting Standard 12 (income taxes), there are no changes in the accounting policy that affect operating profit resulting from the adoption of International Accounting Standards.

(b) Basis of consolidation

The consolidated financial statements incorporate the company and its subsidiary, made up to 31 December 1999.

(c) Revenue recognition

Sales are recognised upon despatch of goods, net of excise duty and VAT. Interest income is recognised as it accrues unless collectability is doubtful.

(d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Land and buildings and certain items of plant and machinery are subsequently shown at valuation, less subsequent depreciation. Vehicles and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on the revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.,

Depreciation is not provided on freehold land or long leasehold land with unexpired terms of more than 40 years. Depreciation on the remaining property, plant and equipment 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	– 2.5%
Leasehold buildings	– 2.5%-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.

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

(e) 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. Net realisable value is the estimate of the selling price in the ordinary course of business less costs of completion and selling expenses.

(f) Current taxation

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

(g) Deferred taxation

Deferred taxation is provided for using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying value for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

(h) Translation of 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.

(i) Retirement Benefit Schemes

The company operates an unfunded retirement benefit scheme to provide additional "top up" benefits to the company's management staff. The scheme operates on a defined benefit basis. No contributions are payable to the scheme, but a provision is made in the financial statements to meet the cost of the future benefits under the scheme and the adequacy of such provision is confirmed periodically by independent actuarial valuations.

The company also operates two other schemes which operate on a defined contribution basis and provide lump sum benefits on retirement or earlier exit. The company's contributions to defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(j) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of International Accounting Standards, which the company has adopted from 1 January 1999.

Notes to the Accounts

1. Gross turnover

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

2. Cost of operations

	1999 K.Shs.'000	1998 K.Shs.'000
Raw materials and consumables	1,550,171	2,028,947
Marketing and distribution costs	525,534	516,090
Administrative expenses	1,242,798	1,018,763
Depreciation (note 9)	235,705	203,288
Other operating expenses	89,536	166,972
	3,643,744	3,934,060

3. Operating profit

The following items have been charged in arriving at operating profit:	1999 K.Shs.'000	1998 K.Shs.'000
Depreciation	235,705	203,288
Staff costs (note 4)	997,820	855,820
Auditors' remuneration	3,800	3,400
Directors' remuneration		
- fees	154	154
- other	61,856	65,598

4. Staff costs

The following items are included within staff costs:	1999 K.Shs.'000	1998 K.Shs.'000
Termination benefits	131,523	20,175
Retirement benefits costs:		
– defined contribution schemes	42,299	37,891
– defined benefit scheme	62,542	10,171
The average number of persons employed by the group during the year was:	780	947

5. Finance income/(costs)

	1999 K.Shs.'000	1998 K.Shs.'000
Interest income	8,754	17,803
Net foreign exchange gains/(losses)	49,433	(5,098)
Interest expense	(44,827)	(86,191)
	13,360	(73,486)

6. Taxation

	1999 K.Shs.'000	1998 K.Shs.'000
Current tax	567,986	585,789
Under provision in prior years	6,576	9,087
Deferred tax (Note 16)	62,506	33,640
	637,068	628,516

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

	1999 K.Shs.'000	1998 K.Shs.'000
Profit before taxation	1,831,235	1,751,790
Tax calculated at a tax rate of 32.5 %	595,151	569,332
Tax effect of:		
Income not subject to tax	(97,538)	(27,400)
Expenses not deductible for tax purposes	113,548	86,584
Change in tax rate	25,907	—
Tax charge	637,068	628,516

All tax returns due by 31 December 1999 on a self assessment basis have been submitted and all payments due by that date have been made.

7. Dividends

	1999 K.Shs.'000	1998 K.Shs.'000
Interim of K.Shs. 2.50 per share	187,500	187,500
Proposed final of K.Shs. 8.00 per share	600,000	375,000
	787,500	562,500

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-residents.

8. Earnings per share

Earnings per share for 1999 and 1998 are based on profits after taxation of K.Shs.1,194,167,000 and K.Shs.1,123,274,000 respectively, calculated on issued capital of 75,000,000 ordinary shares of Kshs.10 each.

Notes to the Accounts (Continued)

9. Property, plant and equipment-Group and Company

(a)

	Freehold land & buildings K.Shs.'000	Leasehold land & buildings K.Shs.'000	Plant & machinery K.Shs.'000	Vehicles & equipment K.Shs.'000	Total K.Shs.'000
Cost or valuation:					
At 1 January 1999	12,000	1,523,191	4,145,842	525,483	6,206,516
Additions	—	62,525	74,731	113,121	250,377
Revaluation surplus	1,500	257,579	—	—	259,079
Disposals	—	—	—	(88,190)	(88,190)
At 31 December 1999	13,500	1,843,295	4,220,573	550,414	6,627,782
Depreciation:					
At 1 January 1999	1,000	178,202	2,690,819	268,134	3,138,155
Charge for the year	—	41,685	137,923	56,097	235,705
Write-back on revaluation	(1,000)	(219,887)	—	—	(220,887)
On disposals	—	—	—	(67,807)	(67,807)
At 31 December 1999	—	—	2,828,742	256,424	3,085,166
Net book amounts:					
At 31 December 1999	13,500	1,843,295	1,391,831	293,990	3,542,616
Historical cost	455	503,423	1,153,094	293,990	1,950,962
Revaluation element	13,045	1,339,872	238,737	—	1,591,654
Net book amounts:					
At 31 December 1998	11,000	1,344,989	1,455,023	257,349	3,068,361
Historical cost	455	403,931	1,173,057	257,349	1,834,792
Revaluation element	10,545	941,058	281,966	—	1,233,569

(b) Freehold land and buildings were revalued as at 31 December 1999, by Tysons Limited, on the following bases:

(i) open market value for land and residential properties in major urban areas; and

(ii) net current replacement cost on existing use basis for all other properties.

(c) Plant and machinery were revalued by the Directors as at 31 December 1994 on the basis of depreciated replacement cost, determined by the use of relevant cost indices.

The book values of revalued assets were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to revaluation reserves in shareholders' equity (note 18)

Notes to the Accounts (Continued)

10. Stocks-Group and Company

	1999 K.Shs.'000	1998 K.Shs.'000
Raw materials	2,386,519	1,895,185
Finished goods and work in progress	133,345	154,557
	2,519,864	2,049,742

11. Debtors

	Group		Company	
	1999 K.Shs.'000	1998 K.Shs.'000	1999 K.Shs.'000	1998 K.Shs.'000
Trade debtors	92,384	34,003	6,404	1,387
Other debtors	726,594	993,704	690,367	995,272
	818,978	1,027,707	696,771	996,659

12. Cash and cash equivalents-Group

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

	1999 K.Shs.'000	1998 K.Shs.'000
Cash and bank balances	419,441	319,914
Bank overdrafts	(287,725)	—
	131,716	319,914

13. Creditors

	Group		Company	
	1999 K.Shs.'000	1998 K.Shs.'000	1999 K.Shs.'000	1998 K.Shs.'000
Trade creditors	213,004	528,458	206,793	528,458
Excise duty & VAT creditor	563,678	629,808	541,886	609,988
Other creditors	210,383	223,698	210,134	221,698
	987,065	1,381,964	958,813	1,360,144

14. Inter-company accounts

	Group		Company	
	1999	**1998**	**1999**	**1998**
	K.Shs.'000	**K.Shs.'000**	**K.Shs.'000**	**K.Shs.'000**
Amounts due to/(from)				
Parent company	70,211	11,186	70,211	11,186
Fellow subsidiaries	—	—	(109,157)	665,855
	70,211	11,186	(38,946)	677,041

Technical and advisory fees

British American Tobacco Kenya Limited has access to the technical expertise of the parent company; British American Tobacco (Holdings) Limited; in areas such as marketing, management training and development, production, leaf processing and consultancy services. The total technical and advisory fees paid to British American Tobacco (Holdings) Limited in 1999 was K.Shs.131,053,842 (1998: K.Shs. 96,324,190).

15. Retirement benefit obligations

Unfunded retirement benefit scheme

Retirement benefits under this scheme are determined on an actuarial basis by reference to the employees' remuneration and years of service. A provision is made in the accounts to meet the cost of future benefits under the scheme. The scheme is actuarially valued every three years using the projected unit credit method and the last actuarial valuation was carried out as at 31 December 1999. The present value of unfunded obligations at that date was determined as K.Shs.91,260,000.

The principal actuarial assumptions applied are as follows:

Discount rate	9%
Future annual salary increase	7%
Future annual increase in contributions to provident fund and NSSF	7%

The movement in the liability recognised in the balance sheet is as follows;

	1999	1998
	K.Shs.000	K.Shs.000
At 1 January	50,291	40,120
Provision in the year	62,542	10,171
Amounts utilised	(21,573)	—
At 31 December	91,260	50,291

Notes to the Accounts (Continued)

15. Retirement benefit obligations (continued)

Defined contribution schemes

The company also operates two defined contribution schemes for its staff. The two schemes are the BAT Kenya Staff Provident Fund (which is a closed fund and no additional contributions are payable) and the BAT Kenya Staff Provident Fund -1991. Contributions to the company scheme are determined by the rules of the scheme and amounted to K.Shs. 41,309,165 (1998: K.Shs. 36,958,567). Contributions to the statutory scheme, (NSSF), are determined by local statute and amounted to K.Shs. 989,735 (1998: K.Shs. 931,680).

16. Deferred taxation-Group and Company

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate of 30% (1998: 32.5%). The movement on the deferred tax account is as follows:

	1999 K.Shs.'000	**1998 K.Shs.'000**
At 1 January:		
As previously stated	—	—
Prior year adjustments	291,702	273,265
As restated	291,702	273,265
Income statement charge (Note 6)	62,506	33,640
Deferred tax on revaluation (Note 18)	22,294	(15,203)
At 31 December	376,502	291,702

The prior year adjustment is as a result of a change in accounting policy to comply with International Accounting Standard 12. As a result of this change, deferred taxes are calculated on all temporary differences under the liability method using the enacted rate of 30% (1998: 32.5%).

The net deferred tax liability is attributable to the following items;

	1 January K.Shs.'000	**Charged to profit and loss account K.Shs.'000**	**Debited /(credited)to revaluation reserves K.Shs.'000**	**31 December K.Shs.'000**
Accelerated tax depreciation	235,064	25,275	—	260,339
Deferred tax on revaluation	43,319	—	22,294	65,613
Other temporary differences	13,319	37,231	—	50,550
	291,702	62,506	22,294	376,502

Notes to the Accounts (Continued)

17. Share capital

	1999 K.Shs.'000	1998 K.Shs.'000
Authorised, issued and fully paid		
75,000,000 Ordinary Shares of K.Shs. 10 each	750,000	750,000

18. Revaluation reserves-Group and Company

The movement in revaluation reserves during the year was as follows:

	1999 K.Shs.'000	1998 K.Shs.'000
1 January		
As previously stated	**1,964,952**	**1,964,952**
Prior year adjustments:		
Transfer of excess depreciation	(731,383)	(656,847)
Deferred tax (note 16)	(43,319)	(58,522)
As restated	1,190,250	1,249,583
Transfer of excess depreciation	(121,881)	(74,536)
Deferred tax on revaluation (note 16)	(22,294)	15,203
Revaluation surplus in the year (note 9)	479,966	—
31 December	1,526,041	1,190,250

As a result of a change in accounting policy, excess depreciation on assets revalued in prior years, net of deferred tax, has been transferred to revenue reserves.

19. Capital commitments

Capital expenditure contracted at the balance sheet date but not recognised in the financial statements is as follows:

	1999 K.Shs.'000	1998 K.Shs.'000
Amounts authorised by the Directors but not provided for in the financial statements are:	9,644	114,986
of which contracts have been placed for:	9,644	70,600

20. Contingent liabilities

At 31 December 1999, the group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business, the group has given guarantees amounting to K.Shs. 130 million (1998: K.shs. 126 million) to third parties.

The company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

Notes to the Accounts (Continued)

21. Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations:

	1999 K.Shs.'000	1998 K.Shs.'000
Profit before taxation	1,831,235	1,751,790
Adjustments for:		
Depreciation (note 9)	235,705	203,288
Profit on sale of property, plant and equipment	(21,115)	(9,667)
Interest income (note 5)	(8,754)	(17,803)
Interest expense (note 5)	44,827	86,191
Changes in working capital:		
– Debtors	208,729	157,468
– Stocks	(470,122)	(108,068)
– Creditors and inter-company accounts	(335,874)	31,286
Increase in retirement benefits obligations	40,969	10,171
Cash generated from operations	1,525,600	2,104,656

22. Country of incorporation and controlling party

The company is incorporated in Kenya under the Companies Act. The ultimate parent company and controlling party is British American Tobacco plc which is incorporated in England and Wales.

23. Currency

These financial statements are presented in Kenya Shillings (K.Shs.).

SUBSIDIARY COMPANIES IN THE BRITISH AMERICAN TOBACCO KENYA LIMITED GROUP

	% equity shares held
BAT Kenya Tobacco Company Limited	100
African Cigarette Company (Overseas) Limited	100 (Non- trading)
East African Tobacco Company Kenya Limited	100 (Non-trading)