BRITISH AMERICAN TOBACCO KENYA LIMITED
Directors' Report & Accounts 2000

BRITISH AMERICAN TOBACCO
KENYA

Contents

British American Tobacco (K) Limited — Periodicals

Directors and Advisors

Mr. E. Mwaniki*

Chairman

Mr. C.M. Burrell

Managing Director

Other Directors

Mr. T.D. McConnell
Mr. J.B. Wanjui*
Mr. M.M. Wanyoike*
Mr. A. Ngugi*
Mr. E. Watt*

*Non – executive directors

Audit Committee

Mr. E. Mwaniki
Mr. C.M. Burrell
Mr. T.D. McConnell
Mr. S. Welford
Mr. T. Day
Mr. A. Wainaina

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 Tower
Upper Hill Road
P.O. Box 43963
Nairobi

Advocates

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

Bankers

ABN Amro Bank
Barclays Bank of Kenya Limited
Citibank N.A.
Commercial Bank of Africa Limited
Kenya Commercial Bank Limited
Stanbic Bank Kenya Limited
Standard Chartered Bank Kenya Limited

Report of the **Directors**

The Directors have pleasure in submitting their Report and the audited financial statements for the year ended 31 December 2000.

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

Results and dividends	**K.Shs. '000**
Net profit available for appropriation	582,710
Appropriated as follows:	
Dividends:	
Interim dividends of K.Shs 6.25 per share	625,000
Proposed final dividend of K.Shs 1.65 per share	165,000
	790,000

Board of Directors
The following changes have taken place in the board of directors since the last annual report and financial statements:

Mr. J.D. Pike resigned on 28 April 2000 and Mr. C.M. Burrell was appointed on 29 May 2000. Mr. A. Ngugi was appointed as a non-executive director on 10 April 2000.

Mr M.O. Owiti resigned as a director on 29 June 2000. Mr M.M. Wanyoike who retired on 31 December 2000 was re-appointed as a non-executive director on 2 January 2001. Mr. E. Watt resigned as a director on 31 January 2001.

In accordance with Article 89 of the Articles of Association, Messrs T.D. McConnell and A. Ngugi 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 C.M. Burrell, and M.M. Wanyoike retire from the Board 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.

By order of the Board
J.N. Kiragu
Company Secretary 26 February, 2001

Ripoti ya **Wakurugenzi**

Wakurugenzi wanafurahia kutoa Ripoti yao na hesabu za fedha zilizokaaguliwa kwa mwaka uliomalizika Desemba 31 2000.

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

Faida iliyopatikana	**K.Shs.'000**
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa	582,710
Iligawanywa ifuatavyo:	
Mgawo ya faida kwa wenyehisa:	
Mgawo wa muda wa K.Shs. 6.25 kwa kila hisa	625,000
Mgawo wa mwisho unaopendekezwa wa K.Shs 1.65	165,000
	790,000

Halmashauri ya Wakurugenzi
Tangu kuchapiwa kwa repoti na hesabu mwaka jana mabadiliko yafuatayo yametokea katika halmashauri ya wakurugenzi:

BW J.D. Pike alijiuzulu tarehe 28 Aprili 2000 na Bw C.M. Burrell akateuliwa tarehe 29 Mai 2000. Bw. A. Ngugi akateuliwa Mkurugenzi asiye na wadhifa tarehe 10 Aprili 2000.

Bw M.O. Owiti alijiuzulu tarehe 29 Juni 2000. Bw M.M. Wanyoike aliyestaafu tarehe 31 Desemba 2000 na akateuliwa Mkurugenzi asiye na wadhifa tarehe 2 Januari 2001. Bw E. Watt alijiuzulu tarehe 31 Januari 2001.

Kwa mujibu wa kifungu cha 89 Katiba ya Kampuni Mabw T.D. McConnell na A. Ngugi watastaafu kwa zamu katika Mkutano Mkuu wa Mwaka na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu 95 cha Katiba ya Kampuni Mabw C.M. Burrell, na M.M. Wanyoike watastaafu 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.

Kwa amri ya Halmashauri
J.N. Kiragu
Katibu wa Kampuni Februari 26, 2001

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 balance sheet of the company is 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 company and of the profit or loss of the group. 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 company as at 31 December 2000 and of the group profit and cash flows for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

26 February 2001

Consolidated Profit and Loss Account

For the year ended 31 December 2000

	Notes	2000 K.Shs.'000	1999 K.Shs.'000
Gross turnover		**10,895,622**	11,037,539
Excise duty & Value Added Tax		(5,419,937)	(5,702,489)
Net turnover		**5,475,685**	5,335,050
Cost of operations	1	(4,060,745)	(3,510,977)
Reorganisation costs	2	(889,393)	(89,536)
Other operating income		182,320	126,569
Operating profit	3	**707,867**	1,861,106
Finance (costs)/income	5	(24,897)	13,360
Profit before tax		**682,970**	1,874,466
Tax	6	(100,260)	(637,068)
Net profit		**582,710**	1,237,398
Basic earnings per share (K.Shs.)	8	**5.83**	12.37

Consolidated Balance Sheet

At 31 December 2000

	Notes	2000 K.Shs.'000	1999 K.Shs.'000
CAPITAL EMPLOYED			
Share capital	16	1,000,000	750,000
Share premium		23	23
Revaluation reserves	17	953,103	981,676
Retained earnings		2,205,477	2,634,194
Proposed dividends		165,000	600,000
Shareholders' funds		**4,323,603**	**4,965,893**
REPRESENTED BY:			
Non–current assets			
Property, plant and equipment	9	3,483,043	3,303,879
Current assets			
Inventories	10	2,292,011	2,519,864
Trade and other receivables	11	620,584	818,978
Tax recoverable		154,230	76,528
Cash and bank balances	12	606,713	419,441
		3,673,538	3,834,811
Current liabilities			
Trade and other payables	13	1,186,962	1,063,465
Bank overdrafts	12	1,079,633	287,725
		2,266,595	1,351,190
Net current assets		1,406,943	2,483,621
Total assets less current liabilities		**4,889,986**	**5,787,500**
Non-current liabilities			
Retirement benefit obligations	14	81,483	91,260
Deferred tax	15	484,900	730,347
Net assets		**4,323,603**	**4,965,893**

The accounts on pages 5 to 20 were approved by the Board of Directors on 26 February 2001 for issue and were signed on its behalf by:

C.M. Burrell — Director

T.D. McConnell — Director

Company Balance Sheet

At 31 December 2000

	Notes	2000 K.Shs.'000	1999 K.Shs.'000
CAPITAL EMPLOYED			
Share capital	16	1,000,000	750,000
Share premium		23	23
Revaluation reserves	17	953,103	981,676
Retained earnings		2,205,477	2,634,194
Proposed dividends		165,000	600,000
Shareholders' funds		**4,323,603**	**4,965,893**
REPRESENTED BY:			
Non–current assets			
Property, plant and equipment	9	3,483,043	3,303,879
Investment in subsidiary		12,000	12,000
		3,495,043	3,315,879
Current assets			
Inventories	10	2,292,011	2,519,864
Trade and other receivables	11	901,475	735,717
Tax recoverable		148,250	175,006
Cash and bank balances		303,391	293,761
		3,645,127	3,724,348
Current liabilities			
Trade and other payables	13	1,170,551	965,002
Bank overdrafts		1,079,633	287,725
		2,250,184	1,252,727
Net current assets		1,394,943	2,471,621
Total assets less current liabilities		**4,889,986**	**5,787,500**
Non-current liabilities			
Retirement benefit obligations	14	81,483	91,260
Deferred tax	15	484,900	730,347
Net assets		**4,323,603**	**4,965,893**

The accounts on pages 5 to 20 were approved by the Board of Directors on 26 February 2001 for issue and were signed on its behalf by:

C.M. Burrell Director

T.D. McConnell Director

Consolidated Statement of Changes in Equity

	Notes	Share capital K.Shs.'000	Revaluation reserves K.Shs.'000	Retained earnings K.Shs.'000	Proposed dividends K.Shs.'000	Total K.Shs.'000
Year ended 31 December 1999						
At start of year						
- as previously stated		750,000	1,190,250	2,153,862	—	4,094,112
- reversal of revaluation surplus		—	(281,968)	—	—	(281,968)
- deferred tax on revaluation		—	(238,460)	—	—	(238,460)
- effect of adopting IAS 10		—	—	—	375,000	375,000
- As restated		750,000	669,822	2,153,862	375,000	3,948,684
Revaluation surplus	17	—	479,966	—	—	479,966
Deferred tax on revaluation	17	—	(137,678)	—	—	(137,678)
Transfer of excess depreciation	17	—	(30,434)	30,434	—	—
Net gains not recognised in the profit and loss account		—	311,854	30,434	—	342,288
Net profit for the year		—	—	1,237,398	—	1,237,398
Dividends:	7					
- Final for 1998		—	—	—	(375,000)	(375,000)
- Interim for 1999		—	—	(187,500)	—	(187,500)
- Proposed final for 1999		—	—	(600,000)	600,000	—
At end of year		750,000	981,676	2,634,194	600,000	4,965,870
Year ended 31 December 2000						
At start of year						
- as previously stated		750,000	1,526,041	2,682,410	—	4,958,451
- reversal of revaluation surplus		—	(190,521)	(48,216)	—	(238,737)
- deferred tax on revaluation		—	(353,844)	—	—	(353,844)
- effect of adopting IAS 10		—	—	—	600,000	600,000
- As restated		750,000	981,676	2,634,194	600,000	4,965,870
Transfer of excess depreciation	17	—	(40,819)	40,819	—	—
Deferred tax on transfer	17	—	12,246	(12,246)	—	—
Net gains/(losses) not recognised in the profit and loss account		—	(28,573)	28,573	—	—
Net profit for the year		—	—	582,710	—	582,710
Dividends:	7					
- Final for 1999		—	—	—	(600,000)	(600,000)
- Interim for 2000		—	—	(625,000)	—	(625,000)
- Proposed final for 2000		—	—	(165,000)	165,000	—
Bonus issue of shares	16	250,000	—	(250,000)	—	—
At end of year		1,000,000	953,103	2,205,477	165,000	4,323,580

Company Statement of Changes in Equity

	Notes	Share capital K.Shs.'000	Revaluation reserves K.Shs.'000	Retained earnings K.Shs.'000	Proposed dividends K.Shs.'000	Total K.Shs.'000
Year ended 31 December 1999						
At start of year						
- as previously stated		750,000	1,190,250	1,670,560	—	3,610,810
- reversal of revaluation surplus		—	(281,968)	—	—	(281,968)
- deferred tax on revaluation		—	(238,460)	—	—	(238,460)
- effect of adopting IAS 10		—	—	—	375,000	375,000
- As restated		750,000	669,822	1,670,560	375,000	3,465,382
Revaluation surplus	17	—	479,966	—	—	479,966
Deferred tax on revaluation	17	—	(137,678)	—	—	(137,678)
Transfer of excess depreciation	17	—	(30,434)	30,434	—	—
Net gains not recognised in the profit and loss account		—	311,854	30,434	—	342,288
Net profit for the year		—	—	1,720,700	—	1,720,700
Dividends:	7					
- Final for 1998		—	—	—	(375,000)	(375,000)
- Interim for 1999		—	—	(187,500)	—	(187,500)
- Proposed final for 1999		—	—	(600,000)	600,000	—
At end of year		750,000	981,676	2,634,194	600,000	4,965,870
Year ended 31 December 2000						
At start of year						
- as previously stated		750,000	1,526,041	2,682,410	—	4,958,451
- reversal of revaluation surplus		—	(190,521)	(48,216)	—	(238,737)
- deferred tax on revaluation		—	(353,844)	—	—	(353,844)
- effect of adopting IAS 10		—	—	—	600,000	600,000
- As restated		750,000	981,676	2,634,194	600,000	4,965,870
Transfer of excess depreciation	17	—	(40,819)	40,819	—	—
Deferred tax on transfer	17	—	12,246	(12,246)	—	—
Net gains/(losses) not recognised in the profit and loss account		—	(28,573)	28,573	—	—
Net profit for the year		—	—	582,710	—	582,710
Dividends:	7					
- Final for 1999		—	—	—	(600,000)	(600,000)
- Interim for 2000		—	—	(625,000)	—	(625,000)
- Proposed final for 2000		—	—	(165,000)	165,000	—
Bonus issue of shares	16	250,000	—	(250,000)	—	—
At end of year		1,000,000	953,103	2,205,477	165,000	4,323,580

Consolidated Cash Flow Statement

For the year ended 31 December 2000	Notes	2000 K.Shs.'000	1999 K.Shs.'000
Operating activities			
Cash generated from operations	19	1,512,186	1,525,600
Interest received		11,078	8,754
Interest paid		(74,314)	(44,827)
Tax paid		(423,409)	(893,979)
Net cash from operating activities		1,025,541	595,548
Investing activities			
Purchase of property, plant and equipment	9	(438,037)	(250,377)
Proceeds from disposal of property, plant and equipment		32,860	41,499
Net cash used in investing activities		(405,177)	(208,878)
Financing activities			
Dividends paid		(1,225,000)	(574,868)
Net cash used in financing activities		(1,225,000)	(574,868)
Decrease in cash and cash equivalents		(604,636)	(188,198)
Movement in cash and cash equivalents:			
At start of year	12	131,716	319,914
Decrease in cash and cash equivalents		(604,636)	(188,198)
At end of year	12	**(472,920)**	**131,716**

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. The financial statements are presented in Kenya Shillings (K.Shs.) and are prepared under the historical cost convention as modified by the revaluation of land and buildings.

(b) Group accounting

The consolidated financial statements incorporate the company and its subsidiary, made up to 31 December 2000. Subsidiaries are consolidated from the date on which control is transferred to the group and are not consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

(c) Revenue recognition

Sales are recognised upon delivery of goods to customers and are stated net of excise duty and VAT. Interest income is recognised as it accrues unless collectability is in doubt.

(d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Land and buildings are subsequently shown at valuation, less subsequent 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 calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to its expected residual value over its estimated useful life as follows:

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 the asset.

Freehold and long leasehold land is not depreciated.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount

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

(e) 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 the transaction. The resulting differences from conversion are dealt with in the profit and loss account in the year in which they arise.

(f) 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 direct costs and related 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.

(g) Trade receivables

Trade receivables are carried at original invoiced amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(h) Deferred tax

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their values for financial reporting purposes. Tax rates enacted or substantially enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(i) Retirement benefit obligations

The company operates two defined contribution retirement benefit schemes for all its employees. The assets of both schemes are held in separate funds which are administered by an independent custodian and are funded by contributions from both the company and employees. The company's contribution to the schemes are charged to the profit and loss account in the year which they relate.

The company also operates an unfunded retirement benefit scheme to provide additional "top-up" retirement benefits to 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 for the estimated cost of the future benefits under the scheme. The adequacy of such provisions is confirmed periodically by an independent actuarial valuation.

(j) Dividends

Dividends of ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(k) Reorganisation provisions

Reorganisation provisions mainly comprise employee termination payments and are recognised in the year in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided in advance.

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposit held at call with banks, net of bank overdrafts and short term loans. In the balance sheet, bank overdrafts and short term loans are included in borrowing and current liabilities.

(m) 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 IAS 10, which the company has implemented in the year.

1. Cost of operations

	2000 K.Shs.'000	1999 K.Shs.'000
Raw materials and consumables	1,870,396	1,550,171
Marketing and distribution costs	568,888	525,534
Administrative expenses	1,400,861	1,242,798
Depreciation	220,600	192,474
	4,060,745	3,510,977

2. Reorganisation costs

Redundancy costs	334,065	89,536
Restructuring expenses	555,328	—
	889,393	89,536

During the year, the company undertook significant reorganisation of leaf and supply chain operations which resulted in redundancies and restructuring expenses.

3. Operating profit

The following items have been charged in arriving at operating profit	2000 K.Shs.'000	1999 K.Shs.'000
Depreciation (Note 9)	220,600	192,474
Staff costs (Note 4)	949,962	997,820
Auditors' remuneration	4,050	3,800
Directors' remuneration		
- fees	165	154
- other	62,321	61,856

4. Staff costs

The following items are included within staff costs

Retirement benefits costs:		
– defined contribution schemes (Note 14)	41,813	42,241
– defined benefit scheme (Note 14)	27,803	62,542
The number of persons employed by the company at the year end was:	651	814

5. Finance (costs) /income

Interest income	11,078	8,754
Net foreign exchange gains	38,339	49,433
Interest expense	(74,314)	(44,827)
	(24,897)	13,360

6. Tax

	2000 K.Shs.'000	1999 K.Shs.'000
Current tax	319,384	567,986
Under provision in prior years	26,323	6,576
Deferred tax (Note 15)	(245,447)	62,506
	100,260	637,068

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

	2000 K.Shs.'000	1999 K.Shs.'000
Profit before tax	682,970	1,874,466
Tax calculated at a tax rate of 30% (1999: 32.5%)	204,891	609,201
Tax effect of:		
Income not subject to tax	(144,117)	(97,538)
Expenses not deductible for tax purposes	13,163	92,922
Under provision in prior years	26,323	6,576
Change in tax rate	—	25,907
Tax charge	100,260	637,068

7. Dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the Annual General Meeting. During the year interim dividends of K.Shs. 6.25 per share amounting to K.Shs. 625,000,000 were paid. At the Annual General Meeting to be held on 29 March 2001, a final dividend of K.Shs. 1.65 per share amounting to K.Shs. 165,000,000 is to be proposed. The total dividend for the year is, therefore, K.Shs. 7.90 per share (1999: K.Shs. 10.50), amounting to K.Shs. 790,000,000 (1999: K.Shs. 787,500,000).

Payment of dividend is subject to withholding tax at a rate of 5% and 10% for residents and non-residents respectively.

8. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2000	1999
Net profit attributable to shareholders (K.Shs. '000)	582,710	1,237,398
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (K.Shs.)	5.83	12.37

9. Property, plant and equipment – Group and Company

		Freehold land & buldings K.Shs.'000	Leasehold land & buildings K.Shs.'000	Plant & machinery K.Shs.'000	Vehicles & equipment K.Shs.'000	Total K.Shs.'000
(a)	**Cost or valuation:**					
	1 January 2000					
	- as previously stated	13,500	1,843,295	4,220,573	550,414	6,627,782
	- reversal of revaluation	—	—	(2,277,200)	—	(2,277,200)
	- as restated	13,500	1,843,295	1,943,373	550,414	4,350,582
	Additions	—	13,332	393,240	31,465	438,037
	Disposals	—	—	(66,345)	(30,188)	(96,533)
	At 31 December 2000	13,500	1,856,627	2,270,268	551,691	4,692,086
	Depreciation:					
	1 January 2000					
	- as previously stated	—	—	2,828,742	256,424	3,085,166
	- reversal of revaluation	—	—	(2,038,463)	—	(2,038,463)
	- as restated	—	—	790,279	256,424	1,046,703
	Charge for the year	262	53,051	100,964	66,323	220,600
	Disposals	—	—	(35,402)	(22,858)	(58,260)
	At 31 December 2000	262	53,051	855,841	299,889	1,209,043
	Net book amounts:					
	At 31 December 2000	13,238	1,803,576	1,414,427	251,802	3,483,043
	Historical cost	446	456,054	1,414,427	251,802	2,122,729
	Revaluation	12,792	1,347,522	—	—	1,360,314
	At 31 December 1999	13,500	1,843,295	1,153,094	293,990	3,303,879
	Historical cost	455	455,207	1,153,094	293,990	1,902,746
	Revaluation	13,045	1,388,088	—	—	1,401,133

(b) During the year the company changed its policy of carrying certain items of plant and machinery at a directors' valuation as at 31 December 1994, and reverted to historical cost less accumulated depreciation basis. As a result, the carrying amounts of certain items of plant and machinery have been adjusted to the historical cost basis by reversal of the revaluation surplus.

(c) 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

10. Inventories – Group and Company

	2000 K.Shs.'000	1999 K.Shs.'000
Raw materials and consumables	2,206,787	2,386,519
Finished goods and work in progress	85,224	133,345
	2,292,011	2,519,864

11. Trade and other receivables

	Group		Company	
	2000 K.Shs.'000	1999 K.Shs.'000	2000 K.Shs.'000	1999 K.Shs.'000
Trade receivables	76,902	92,384	60,440	6,404
Prepayments and other debtors	490,128	726,594	490,128	690,367
Related companies (Note 20)	53,554	—	350,907	38,946
	620,584	818,978	901,475	735,717

12. Cash and cash equivalents – Group

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

	2000 K.Shs.'000	1999 K.Shs.'000
Cash and bank balances	606,713	419,441
Bank overdrafts	(1,079,633)	(287,725)
	(472,920)	131,716

Bank overdrafts are unsecured.

The weighted average effective interest rates during the year were as follows:

Bank overdrafts	10.4%	22.7%

13. Trade and other payables

	Group 2000 K.Shs.'000	Group 1999 K.Shs.'000	Company 2000 K.Shs.'000	Company 1999 K.Shs.'000
Trade payables	545,040	213,004	528,629	206,792
Related companies (Note 20)	—	70,210	—	—
Excise duty & VAT creditor	469,377	563,678	469,376	541,886
Accruals and other creditors	172,545	216,573	172,546	216,324
	1,186,962	1,063,465	1,170,551	965,002

14. Retirement benefit obligations

Unfunded retirement benefit scheme

The company makes a provision in the financial statements for the estimated cost of the future benefits under the defined "top-up" scheme for management staff. The movement in the provision during the year is as follows:

	2000 K.Shs.'000	1999 K.Shs.'000
At start of year	91,260	50,291
Charge to profit and loss account in the year	27,803	62,542
Utilised	(37,580)	(21,573)
At end of year	81,483	91,260

The last actuarial assessment of the company's liabilities under the scheme was carried out as at 31 December 1999. The main 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%

Defined contribution schemes

The company also operates two defined contribution schemes for all 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. 41,028,000 (1999: 41,309,165).

Contributions to the statutory pension scheme, (NSSF), are determined by local statute and amounted to K.Shs. 785,360 (1999: 931,680).

19. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2000 K.Shs.'000	1999 K.Shs.'000
Profit before tax	682,970	1,874,466
Adjustments for:		
Depreciation (Note 9)	220,600	192,474
Loss/(profit) on sale of property, plant and equipment	5,413	(21,115)
Interest income (Note 5)	(11,078)	(8,754)
Interest expense (Note 5)	74,314	44,827
Changes in working capital:		
– Trade and other receivables	198,394	208,729
– Inventories	227,853	(470,122)
– Trade and other payables	123,497	(335,874)
– Retirement benefits obligations	(9,777)	40,969
Cash generated from operations	1,512,186	1,525,600

20. Related party transactions

The ultimate parent and controlling party of the group is British American Tobacco plc, incorporated in England and Wales. There are other companies that are related to British American Tobacco Kenya Ltd through common shareholding or common directorships.

The company receives technical and advisory support from the parent company in areas such as marketing, management training, and research and development. Technical and advisory fees payable to the parent company in respect of these services in the year was K.Shs. 122,756,000 (1999: K.Shs. 131,053,842).

Royalties are payable to related parties for certain cigarette trademarks that are owned by those parties. Royalties are payable at a rate of 5% of the net turnover of qualifying brands. Total royalties payable in the year was K.Shs. 32,530,000 (1999: K.Shs. 28,052,000).

Sales and purchases to/from related parties were made on terms and conditions similar to those offered to major customers.

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)