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## Notice of annual general meeting

Notice is hereby given that the Seventy First Annual General Meeting of BOC Kenya Limited will be held at the Company's factory site on Kitui Road, Industrial Area, Nairobi, on Friday 4 May 2012 at 11.00 am, for the following purposes:

### **ORDINARY BUSINESS**

- (a) To receive and adopt the audited financial statements for the year ended 31 December 2011, together with the directors' and auditors' reports thereon.
- (b) To declare a dividend for the year ended 31 December 2011.
- (c) To hold directors' elections:
  - i) Mr. Joseph G. Kibe and Alfred Juma, who are both over the age of 70 years, retire as directors of the Company in line with section 186 of the Companies Act, and do not offer themselves for re-election.
  - ii) The Board proposes the appointment of Caroline W. Musyoka and Robert N. Mbugua as new directors.
  - iii) Mr. Frederick Kotzee resigned as a director of the Company with effect from 2 March 2012. The Board recommends the appointment of Nick Thomson as a new director in place of Mr. Frederick Kotzee.
  - iv) Mr. Ngugi Kiuna retires by rotation under clause 93 of the Company's Articles of Association and, being eligible, offers himself for re-election.
- (d) To approve the remuneration of directors for the year ended 31 December 2011.
- (e) To note that the auditors, KPMG Kenya, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorise the directors to fix their remuneration.

### **ANY OTHER BUSINESS**

- (f) Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Virginia Ndunge  
Company Secretary

Kitui Road  
P.O. Box 18010  
00500 Industrial Area, Nairobi

**DIRECTORS**

J G Kibe	(Chairman)
M Msiska*	
W Coetzee**	
A C Juma	
N Kiuna	
S Fareed	(Alternate to W Coetzee)
F Kotzee**	(Resigned 2 March 2012)
A Kamau	
P Hensen**	(Alternate to F Kotzee)

\* Malawian

\*\* South African

**SECRETARY****Virginia Ndunge**

Certified Public Secretary (Kenya)  
Kitui Road  
P.O Box 18010  
00500 Nairobi

**REGISTRARS****Custody & Registrars Services Limited**

Bruce House, 6th Floor  
Standard Street  
P. O. Box 8484  
00100 Nairobi GPO

**AUDITORS****KPMG Kenya**

Lonrho House, 16th Floor  
Standard Street  
P. O. Box 40612  
00100 Nairobi GPO

**PRINCIPAL BANKERS****Citibank N.A. - Kenya Branches**

Citibank House  
Upper Hill Road  
P. O. Box 30711  
00100 Nairobi GPO

**REGISTERED OFFICE AND  
PRINCIPAL PLACE OF BUSINESS**

Kitui Road  
Industrial Area  
P.O. Box 18010  
00500 Nairobi

**Standard Chartered Bank Kenya Limited**

Sameer Park, Mombasa Road  
P.O. Box 18081  
00500 Industrial Area, Nairobi

**ADVOCATES****Daly & Figgis Advocates**

Lonrho House, 8th Floor  
Standard Street  
P. O. Box 40034  
00100 Nairobi GPO

**Barclays Bank of Kenya Limited**

Industrial Area, off Enterprise Road  
P.O. Box 30120  
00100 Nairobi GPO

**Kaplan & Stratton Advocates**

Williamson House, 9th Floor  
4th Ngong Avenue  
P. O. Box 40111  
00100 Nairobi GPO



#### **JOSEPH GILBERT KIBE**

Joe Kibe is a Bachelor of Arts graduate of London University through Makerere College. He had a career spanning 17 years in the Kenya Government. For twelve 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.

#### **MARIA MSISKA**

Maria Msiska is a Fellow of the Chartered Association of Certified Accountants. She holds a Master of Business Leadership from the University of South Africa as well as Bachelor of Commerce degree from the University of Malawi. Maria has served as a director in various listed and non-listed companies within and outside of the Linde Group in Africa. She was appointed as a director on the BOC Kenya Limited Board in February 2010. In September 2010, she was appointed Managing Director of BOC Kenya Limited and is leading the re-engineering of the Group's operations in the Eastern Africa region. Before her current role, she was Head of Finance for the Group's African Operations outside of South Africa and, prior to this, was Managing Director of Afrox Zambia Limited and Afrox Malawi Limited.



#### **WILLEM DIEDERIK COETZEE**

Willem Diederik Coetzee is the General Manager African Operations, African Oxygen Limited based in South Africa. He is a registered Professional Engineer with the South African Institute of Professional Engineers. He holds a BSc Engineering degree Cum Laude and a Master of Business Administration degree from the University of Pretoria, South Africa. Willem has a total of 28 years business experience at various positions and organizations including 16 years in the Industrial Gases business with BOC/Linde in The United States of America, Thailand

#### **ALFRED C JUMA**

Alfred C 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 is Chairman of the Kenya Roads Board.



**NGUGI KIUNA**

Ngugi Kiuna is a holder of a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England. He was the Managing Director of Diversey Eastern and Central Africa Limited until July 2006. He was appointed a non-executive director of BOC Kenya Limited in October 1993. Ngugi has served in various boards of listed and non-listed companies among them Access Kenya Limited and the Kenya Power and Lighting Company and is a reknown businessman.

**FREDERICK KOTZEE**

Frederick Kotzee is the group financial director of African Oxygen Limited (South Africa). He is a Chartered Accountant and an honors commerce graduate from the University of Pretoria. He also holds a BProc and LLB from the University of South Africa. He was appointed director on 12 August 2010. Frederick has fourteen years post-articles experience in mining, industry and merchant banking. He joined Anglo Platinum's corporate finance department in 2002 from ING Barings. In 2008 he was appointed General Manager Corporate Finance for Anglo American, and returned to Anglo Platinum in 2009 as Head of Business Development.

**ARTHUR KAMAU**

Arthur Kamau is a graduate of Economics and Business Studies (Kenyatta University) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK), where he has previously served on its finance committee. He trained as an accountant with the global accountancy services firm, KPMG, where he rose to the position of senior manager. Arthur has also spent nine years in the manufacturing industry, firstly at United Distillers and Vintners Limited, then at Diversey Eastern and Central Africa Limited, where he was Finance Director and also Chair of the Board of Trustees of that company's Provident Fund. Arthur joined BOC Kenya Limited in December 2010 as the General Manager responsible for Finance & Administration.



The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2011, which disclose the state of affairs of the Group and Company.

**1. PRINCIPAL ACTIVITIES**

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

**2. RESULTS**

The Group results for the year are set out on page 17.

**3. DIVIDENDS**

During the year, the Company paid an interim dividend of KShs 2.00 (2010 - KShs 2.00) per share, amounting to KShs 39,050,892 (2010 - KShs 39,050,892). The directors recommend the approval of a final dividend of KShs 4.80 (2010 - KShs 1.40) per share amounting to KShs 93,722,141 (2010 - KShs 27,335,624) and a special dividend of nil (2010 - KShs 6.00 per share, amounting to KShs 117,152,676).

**4. DIRECTORS**

The directors who served since 1 January 2011 are set out on page 4-5.

**5. AUDITORS**

The auditors, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

**6. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved at a meeting of the directors held on 2 March 2012

BY ORDER OF THE BOARD

VIRGINIA NDUNGE  
Secretary

Date: 2 March 2012

The Directors are responsible for the preparation and presentation of the financial statements of BOC Kenya Limited set out on pages 17 to 60 which comprise the statement of financial position at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the Directors are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 Company and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

## Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 2 March 2012 and were signed on its behalf by:

J.G. Kibe  
Director

M. Msiska  
Director



Joseph Gilbert Kibe, *Chairman*

#### DEAR SHAREHOLDER

2011 was a difficult year for the Kenyan economy with key macro economic indicators deteriorating significantly.

The Shilling weakened substantially due to a widening current account deficit, a rise in world crude oil prices and the strength of the dollar in international markets following the Eurozone crisis. The month-on-month overall inflation rate rose from 4.5% to 18.9% in the twelve months to end December 2011. This was attributed to drought conditions, food shortages, rising oil prices and the weakness of the currency.

To arrest the depreciation of the shilling and tame inflation, the Central Bank raised the Central Bank Rate (CBR) progressively from 5.75% to 18% in the course of the year. This resulted in a significant increase in commercial bank interest rates.

During the year share prices on the Nairobi Securities Exchange dropped by an average of 30% as local investors shifted funds to high-interest earning short-term investments. Foreign investors stayed away fearing a continued weakness of the currency.

The Board is, however, happy to note that economic fundamentals stabilised towards the end of the year and is optimistic there will be a much-improved economic environment in 2012, as the country approaches its first national elections under a new constitution.

#### COMPANY RESULTS

Revenue for the year ended 31 December 2011 was Kshs1.2 billion, up 4.3%, with profits before tax up 87.4%, to Kshs214.9 million. Earnings before interest and taxes increased from Kshs83.5 million to Kshs189.5 million in the same period.

The increase in turnover was achieved in the face of logistical challenges, including congestion at Mombasa's port facilities, and persistent shortages of LPG in the domestic market. Focus on debtor and stock processes has resulted in a steady improvement in working capital management in this reporting period. In 2011, the ASU plant was also upgraded which has led to further efficiencies and improved product availability.

#### THE LINDE GROUP

BOC Kenya Limited is part of The Linde Group, a global

leader in gases, engineering and technology solutions, which meets the product needs of a wide range of customers drawn from sectors as diverse as heavy industry, healthcare and hospitality.

The Group has around 50,000 employees working in more than 100 countries worldwide. In 2011 financial year, it achieved sales of Euro €13.7 billion. More information on the Group is available from [www.linde.com](http://www.linde.com).

### CORPORATE GOVERNANCE

Best practice corporate governance principles are the hallmark of BOC Kenya and guide the Company's operations at all levels. The Board of directors are ultimately accountable to all stakeholders for ensuring that the Company's business is conducted in accordance with highest standards of corporate governance. The role of the Board is to assist in determining the Company's direction and strategy, monitoring the achievement of the business objectives, ensuring the Company meets its responsibilities to shareholders and that the control environment mitigates exposure to risk.

The Board, comprising five non-executive directors and two executive directors, brings to the Company the diverse competencies, management and business acumen required to effectively ensure the highest standards are maintained in the running of the Company.

### OUR PEOPLE

Employees are continuously assessed in order to enable the skills required to carry out their responsibilities. BOC Kenya's policy to develop our people is fully integrated with The Linde Group, which is committed to being the employer of choice for the best talent. As a result, our people have access to The Linde Group's online training database, Integrated Management Systems and Standards (IMSS), that provides high standard material designed for specific roles globally. Where local gaps are identified, management work with employees to enhance knowledge through training.

### PROSPECTS FOR THE FUTURE

The Board expects that the economic challenges of 2011 will begin to ease in 2012 but operating costs, especially the cost of electricity, are unlikely to reduce in the foreseeable future. The restructuring actions implemented over the last two years, as well as enforcement of stricter controls, will continue to have a

positive effect on the Company's performance.

The Company will continue to focus on customers, delivering high standards of service while maintaining operational efficiencies and managing costs to ensure sustainable profitability. We continue our journey towards becoming a High Performance Organisation, embracing the partnership between customers, employees, shareholders, suppliers and society.

### APPRECIATION

I would like to thank our customers, suppliers and resellers for their continued support. The Board is committed to ensuring our business partnerships remain mutually beneficial in the years ahead.

Finally, I would like to thank my fellow directors for providing leadership and support in the affairs of your Company. I would also like to thank the management team and our employees for their dedication and hard work during the year.

J G Kibe  
Chairman  
2 March 2012



Maria Msiska, *Managing Director*

### **ECONOMIC REVIEW AND PERFORMANCE**

During the year the business environment was characterised by weak economic indicators. The steep depreciation of the Shilling, spiraling inflation, high cost of electricity and fuel, worsened the already high cost environment. However, towards the end of the year, the economic indicators began to improve following the Central Bank's intervention to curb the sliding Shilling and tame inflation.

Revenue for the year to 31 December 2011 was Kshs1.21 billion, up 4.3%. Sales performance was severely affected by acute shortages of LPG in the country, product shortages owing to congestion at Mombasa port, and product run outs in subsidiaries due to long border delays. Conversion of consignment distributors to resellers also had a negative impact on sales, in the short run.

In 2011, profit before tax was Kshs214.9 million, up 87%, compared to 2010. In 2010, the Company adopted a more robust credit control policy that resulted in enhanced bad debt provision in that year. The Company adopted the Group stock provisioning policy during 2011 which resulted in additional provisioning for plant spares.

Growth outlook for the region continues to be encouraging, which should firm up demand for welding gases, consumables and other products. Our subsidiaries in Uganda and Tanzania are expected to be a significant contributor to our growth, both in sales and profitability. With the advent of the East African Customs Union there is a common market of 130 million people and we are optimistic that we shall continue to benefit from this common market of consumers.

Meanwhile we shall continue to focus on process and production efficiencies, as well as investment in facilities.

### **OPERATIONAL EFFICIENCY**

During the year, the Company refurbished its Air Separation Unit leading to increased product output as well as reduced electricity consumption per unit of output.

A project is currently underway to standardise the Company's Enterprise Resource Planning (ERP) system with other countries in the Group. Once complete, this

project will lead to significant improvements in reporting to management. In the meantime, a project to connect our subsidiaries in Uganda and Tanzania to our computer server in Nairobi has been completed.

During the year, the Company continued to focus on personnel development and motivation, as this is key to the achievement of our objectives.

Our quest to become a High Performance Organisation continues. Our journey has four thrusts that are our main focus:

- Customer focus – having a clear understanding of customer needs and providing solutions that consistently meet these needs;
- Process excellence – implementing standardised global best operating practices that will bring efficiency to our processes and systems;
- Ability to execute – getting things done efficiently and on a timely basis; and
- People excellence – becoming the employer of choice for the best talent available.

Continuous improvement is the cornerstone of our high performance culture and drives us to learn, change and improve. We have made sustainable progress on this front.

### **WORKING CAPITAL MANAGEMENT**

Cash generation for operational and investment needs is still a key measure of management performance. The Company's capital investment model is based on the ability to identify opportunities that will generate acceptable cash flows over the appraisal period. In view of the continuing economic challenges, the need for cash generation becomes ever more imperative and management is actively aware of the changed circumstances and has put in place the necessary mitigations. The Board adopted a more robust credit control policy which resulted in improved credit management and collections. In addition, a detailed review of stock holdings is ongoing.

### **CUSTOMER SERVICE**

Understanding the needs of our customers and offering them products, services and technologies that consistently meet those needs, is among our prime areas of focus. The Customer Service Improvement (CSI) programme requires that customer issues, which

we regard as opportunities for improvement, are investigated to identify root causes for appropriate corrective action.

Safety, health, environment and quality (SHEQ) management

On SHEQ, we continue to uphold The Linde Group standards. Our SHEQ policy states that "We shall not harm people or the environment" and is premised on our ethos of "Safety is 100% of our behavior, 100% of the time". We have continued to build on our various initiatives such as 'near-miss' reporting, SHEQ Roadmap and "LeadSafe" observations, all of which are aimed at promoting safe behavior, and visible leadership at executive and functional team level. To reinforce this, a set of seven Golden Rules were developed and implemented at all sites, targeting 100% of The Linde Group's 50,000 employees world-wide. Our people continue to be involved in, and are measured on, their contribution to the SHEQ programme.

Our SHEQ Roadmap progress monitoring is geared to achieve a minimum of standard level in 11 out of 21 components by end of 2011. The ultimate goal is to attain world-class behavioral standards in all the 21 components.

BOC Kenya maintained its ISO 9001:2008, ISO 14000:2004 and OHSAS 18000:2007 certification during the year. The benefits of these will manifest in the success of the business through operational efficiencies and effectiveness in meeting stakeholder requirements.

### **ASSET REFURBISHMENT**

As reported last year, we embarked on an asset refurbishment and upgrade programme in response to business needs. The first stage was the upgrade of the Air Separation Unit (ASU), which commenced late 2010 and was substantially completed in 2011. The final stage of the upgrade will be completed by June 2012.

In 2012, the Company will refurbish its various premises in the region and invest in additional facilities in line with its growth strategy.

### **COMMUNITY INVOLVEMENT PROGRAMME (CIP)**

At the forefront of this programme are our people, who drive it through dedicating their time and efforts towards sustainable projects that they adopt in consultation with

local communities. Our emphasis has been directed towards care homes for disadvantaged children. One day in the year is set aside for Tumaini Day (Day of Hope), when celebrations are held.

We are members of the UN Global Compact Network Kenya, which demonstrates our commitment to the universal declaration of human rights, labor standards, the environment and anti-corruption.

#### **OUTLOOK**

The increasingly competitive environment calls for a continuous re-evaluation of strategy. We will continue to focus on our ambitious growth strategy, placing customers at the forefront of everything we do. Our growth prospects are linked to the quality of our people, the positive growth prospects of the economies in which we operate and the ability to exceed the expectations of our customers. Solid growth is expected in Uganda and Tanzania going forward.

The Company's management team is confident that BOC Kenya is well placed to take advantage of emerging opportunities.

#### **APPRECIATION**

We strive to be the dependable partner in business and the initiatives we have been driving in recent times are making a difference. I thank each of our customers for their trust in us.

I thank the non-executive members of the Board for their invaluable guidance and also thank the executive management team and all our employees for their unflinching support.

Many thanks also go to our suppliers for their contribution and to you, our shareholders, for your continued support.

Maria Msiska  
Managing Director  
2 March 2012

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 which were in operation during the year.

### BOARD OF DIRECTORS

The Board comprises five non-executive directors and two executive directors, the Managing Director and the General Manager for Finance and Administration. The Board meets on a quarterly basis as scheduled during the year, with additional meetings when necessary. The appointment of directors is on the basis of 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; and
- Approval of the appointment and removal of directors and the external auditors.

### AUDIT COMMITTEE

The Board has constituted an Audit Committee which meets at least twice annually, as scheduled. The Committee, whose membership comprises non-executive directors, meets with internal auditors,

external auditors and management as appropriate. Its responsibilities include:

- Ensuring the maintenance of sound risk management and internal control systems;
- Review of financial information, in particular half-year and the annual financial statements, before they are submitted for review and approval of the full board;
- Ensuring integrity of financial reporting and internal and external audit processes;
- Evaluation of 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 and review of accounting policies and financial information issued to stakeholders;
- Recommending to the Board the selection and appointment of the Group's external auditors and review of proposed audit fees; and
- Requesting for in-depth investigation 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

The Committee 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 directors 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 the senior management team including salaries, performance related bonus arrangements and any other benefits that may accrue from time-to-time.

### COMMUNICATION WITH STAKEHOLDERS

The Group is committed to ensuring that shareholders, relevant authorities such as the Nairobi Stock Exchange, 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 year-end results announcements and circulation of the annual financial statements prior to the annual general meeting.

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

#### **DIRECTORS' LOANS**

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

#### Directors' remuneration

The remuneration of all directors is subject to regular review to ensure that the levels of remuneration and compensation are appropriate. Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 11 of the financial statements.

#### **DIRECTORS' INTEREST**

Below is the summary of the shares in BOC Kenya Limited held by the directors at the close of the financial period:

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 in relation to the 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 meeting agreed objectives;
- Address any critical operational and employee issues that may have arisen in the course of business; and
- Ensure effective communication with all stakeholders of the Group.

#### **RISK MANAGEMENT AND INTERNAL CONTROLS**

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 risk, 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.

As part of planning, 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 provide 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.

At every Board meeting, the status of mitigations, against identified business risks, are reviewed to ensure timely implementation and assessment of desired outcomes are being achieved.

#### **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 policy covers recruitment, staff development, retention and cultural diversity.

Our succession planning process identifies ability and talent and monitors, on a regular basis, the performance of high-fliers from designated groups. Individual development plans are agreed upon in collaboration with managers of the respective employees.

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

The retirement and remuneration committee of the Board also ensures that manpower plans are implemented timeously.

#### CODE OF CONDUCT

In line with The Linde Group, we are 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.

#### STAFF HELPLINE

The Group has a facility through which staff are encouraged to report any actions that they consider to be against our established code of conduct. This facility is managed by an independent third party organisation in order to protect confidentiality.

#### 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.

#### SHAREHOLDERS' PROFILE AS AT 31 DECEMBER 2011

Ownership structure	Number of shareholders	Number of shares held	% of issued shares capital
Foreign Institutions	2	12,765,678	65.38
Foreign Individuals	17	167,523	0.86
Local institutions	181	4,593,331	23.52
Local Individuals	704	1,998,914	10.24
Totals	904	19,525,446	100.00

Ten largest shareholders	Number of shares held	% of issued share capital
B.O.C Holdings UK	12,765,578	65.38
CFC Stanbic Nominees Ltd A/C Nr48701	866,967	4.44
Insurance Company of East Africa	455,812	2.33
Old Mutual Life Assurance Company Limited	288,456	1.48
Standard Chartered Nominees A/C Ke10881	163,855	0.84
Kenya Commercial Bank Nominees A/C 769G	147,000	0.75
Standard Chartered Nominees A/C 9230	130,200	0.67
CFC Stanbic Nominees Ltd A/C Nr48703	120,000	0.61
Carolyne Gray Anne Rosso	110,143	0.56
Standard Chartered Nominees A/C 1256B	110,068	0.56
Total for top 10 shareholders	15,158,079	77.63
Other shareholders	4,367,367	22.37
Total Issued Shares	19,525,446	100.00

# Report of the independent auditors

## to the members of BOC Kenya limited

We have audited the Group financial statements of BOC Kenya Limited set out on pages 17 to 60 which comprise the statements of financial position of the Group and the Company at 31 December 2011, and the Group's statement of comprehensive income, statement of changes in equity for the Group and Company and statement of cash flows for the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

As stated on page 7, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **OPINION**

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2011, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

### **REPORT ON OTHER LEGAL REQUIREMENTS**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- (ii) In our opinion, proper books of account have been kept by the Group and Company, so far as appears from our examination of those books; and
- (iii) The statements of financial position of the Group and Company are in agreement with the books of account.

Date: 2 March 2012

# Statement of comprehensive income for the Group

## for the year ended 31 December 2011

	Note	2011 KShs'000	2010 KShs'000
<b>Revenue</b>		1,205,372	1,155,379
Cost of sales		( 640,317)	( 584,013)
<b>Gross profit</b>		<b>565,055</b>	<b>571,366</b>
Other operating income	7	929	320
Distribution costs		( 109,768)	( 91,687)
Selling and administrative expenses		( 225,327)	( 259,886)
Impairment losses		( 41,435)	( 136,625)
<b>Operating profit</b>		<b>189,454</b>	<b>83,488</b>
Net finance income	9	25,494	31,197
<b>Profit before income tax</b>	10	214,948	114,685
Income tax expense	11	( 64,344)	( 35,348)
<b>Profit for the year</b>		<b>150,604</b>	<b>79,337</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		1,573	( 11,641)
Change in fair value of available for sale financial assets		( 105,545)	75,240
Deferred tax on change in fair value of available-for-sale financial assets		58,889	( 22,572)
<b>Total other comprehensive income for the year</b>		<b>( 45,083)</b>	<b>41,027)</b>
<b>Total comprehensive income for the period</b>		<b>105,521</b>	<b>120,364</b>
Earnings per share (KShs per share)			
- Basic and diluted	12	<b>7.71</b>	<b>4.06</b>

## Statement of comprehensive income for the Company

for the year ended 31 December 2011

	Note	2011 KShs'000	2010 KShs'000
<b>Revenue</b>		1,095,458	1,069,769
Cost of sales		( 620,908)	( 578,684)
<b>Gross profit</b>		<b>474,550</b>	<b>491,085</b>
Other operating income	7	929	320
Distribution costs		( 105,101)	( 85,626)
Selling and administrative expenses		( 241,317)	( 343,461)
<b>Operating profit</b>		<b>129,061</b>	<b>62,316</b>
Net finance income	9	26,441	28,528
<b>Profit before income tax</b>	<b>10</b>	<b>155,502</b>	<b>90,844</b>
Income tax expense	11	( 46,274)	( 27,452)
<b>Profit for the year</b>		<b>109,228</b>	<b>63,392</b>
<b>Other comprehensive income</b>			
Change in fair value of available for sale financial assets		( 105,545)	75,240
Deferred tax on change in fair value of available-for-sale financial assets		58,889	( 22,572)
<b>Total other comprehensive income for the year</b>		<b>( 46,656)</b>	<b>52,668</b>
<b>Total comprehensive income for the period</b>		<b>62,572</b>	<b>116,060</b>
<b>Earnings per share (KShs per share)</b>			
- Basic and diluted	12	<b>5.59</b>	<b>3.25</b>

The notes set out on pages 26 to 60 form an integral part of these financial statements.

## Statement of financial position of the Group

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as at 31 December 2011

	Note	2011 KShs'000	2010 KShs'000 Restated	2009 KShs'000 Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14(a)	645,204	624,161	694,324
Intangible assets	15	1,635	2,923	2,939
Available for sale financial assets	17	276,187	409,416	295,640
Prepaid operating leases	18	3,695	3,800	3,905
<b>Total non-current assets</b>		<b>926,721</b>	<b>1,040,300</b>	<b>996,808</b>
<b>Current assets</b>				
Inventories	19	191,511	232,549	223,635
Available for sale financial assets	17	47,388	30,163	112,861
Trade and other receivables	20	350,414	269,015	362,569
Current tax		-	28,363	56,494
Term deposits	21	25,650	24,716	23,781
Cash and cash equivalents	22	275,119	279,889	97,438
<b>Total current assets</b>		<b>890,082</b>	<b>864,695</b>	<b>876,778</b>
<b>TOTAL ASSETS</b>		<b>1,816,803</b>	<b>1,904,995</b>	<b>1,873,586</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	23(a)	97,627	97,627	97,627
Share premium	23(b)	2,554	2,554	2,554
Fair value reserve	24(a)	150,089	196,745	144,077
Foreign currency translation reserve	24(b)	( 4,536)	( 6,109)	( 18,854)
Retained earnings		989,095	971,264	1,099,853
Proposed dividends	13	93,722	144,489	93,722
<b>Total equity</b>		<b>1,328,551</b>	<b>1,406,570</b>	<b>1,418,979</b>
<b>Non-current liabilities</b>				
Deferred tax	25(a)	29,462	96,411	87,083
<b>Current liabilities</b>				
Current tax		8,776	-	-
Trade and other payables	26	450,014	402,014	367,524
		<b>458,790</b>	<b>402,014</b>	<b>367,524</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,816,803</b>	<b>1,904,995</b>	<b>1,873,586</b>

The financial statements on pages 17 to 60 were approved for issue by the board of directors on 2 March 2012 and signed on its behalf by:

J.G. Kibe  
Director

M. Msiska  
Director

The notes set out on pages 26 to 60 form an integral part of these financial statements.

as at ended 31 December 2011

	Note	2011 KShs'000	2010 KShs'000 Restated	2009 KShs'000 Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14(b)	617,090	596,984	661,574
Intangible assets	15	1,635	2,923	2,939
Investment in subsidiaries	16	60	60	60
Available for sale financial assets	17	276,187	409,416	295,640
Prepaid operating leases	18	3,695	3,800	3,905
<b>Total non current assets</b>		<b>898,667</b>	<b>1,013,183</b>	<b>964,118</b>
<b>Current assets</b>				
Inventories	19	179,404	218,570	209,294
Available for sale financial assets	17	47,388	30,163	112,861
Trade and other receivables	20	309,859	242,931	322,184
Current tax		-	28,429	52,991
Term deposits	21	25,650	24,716	23,781
Cash and cash equivalents	22	143,537	197,089	53,379
<b>Total current assets</b>		<b>705,838</b>	<b>741,898</b>	<b>774,490</b>
<b>TOTAL ASSETS</b>		<b>1,604,505</b>	<b>1,755,081</b>	<b>1,738,608</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	23(a)	97,627	97,627	97,627
Share premium	23(b)	2,554	2,554	2,554
Fair value reserve	24(a)	150,089	196,745	144,077
Retained earnings		826,789	850,334	970,482
Proposed dividends	13	93,722	144,489	93,722
<b>Total equity</b>		<b>1,170,781</b>	<b>1,291,749</b>	<b>1,308,462</b>
<b>Non-current liabilities</b>				
Deferred tax	25(b)	32,561	103,528	90,246
<b>Current liabilities</b>				
Current tax		3,196	-	-
Trade and other payables	26	397,967	359,804	339,900
		401,163	359,804	339,900
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,604,505</b>	<b>1,755,081</b>	<b>1,738,608</b>

The financial statements on pages 17 to 60 were approved for issue by the board of directors on 2 March 2012 and signed on its behalf by:

J.G. Kibe  
Director

M. Msiska  
Director

The notes set out on pages 26 to 60 form an integral part of these financial statements.

## Statement of changes in equity of the Group

	Share capital KShs'000	Share premium KShs'000	Share Revaluation surplus KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
<b>Year ended 31 December 2011</b>								
At 1 January 2011 - As restated	97,627	2,554	-	196,745	(6,109)	971,264	144,489	1,406,570
<b>Comprehensive income for the year</b>								
Profit for the year	-	-	-	-	-	150,604	-	150,604
<b>Other comprehensive income, net of tax</b>								
Currency translation differences	-	-	-	-	-	1,573	-	1,573
Deferred tax on unrealised loss on mark to market	-	-	-	2,855	-	-	-	2,855
Change in available for sale financial assets	-	-	-	(105,545)	-	-	-	( 105,545)
Reversal of deferred tax on change in available for sale financial assets	-	-	-	56,034	-	-	-	56,034
Total other comprehensive income for the year	-	-	-	(46,656)	1,573	-	-	( 45,083)
<b>Total comprehensive income for the year</b>								
	-	-	-	(46,656)	1,573	150,604	-	105,521
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to equity holders	-	-	-	-	-	-	(144,489)	( 144,489)
- Final for 2010 (Paid)	-	-	-	-	-	( 39,051)	-	( 39,051)
- Interim for 2011 (Paid)	-	-	-	-	-	( 93,722)	93,722	-
- Proposed final for 2011	-	-	-	-	-	-	-	-
<b>At 31 December 2011</b>	<b>97,627</b>	<b>2,554</b>	<b>-</b>	<b>150,089</b>	<b>(4,536)</b>	<b>989,095</b>	<b>93,722</b>	<b>1,328,551</b>

The notes set out on pages 26 to 60 form an integral part of these financial statements.

## Statement of changes in equity of the Group

	Share capital KShs'000	Share premium KShs'000	Share Revaluation surplus KShs'000	Fair value reserve KShs'000	Foreign currency translation reserve KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
<b>Year ended 31 December 2010</b>								
At 1 January 2010 - As previously reported	97,627	2,554	114,815	144,077	(18,854)	1,099,853	93,722	1,533,794
Impact of change in accounting policy (Note 2(e))	-	-	(114,815)	-	-	-	-	(114,815)
At 1 January 2010 - As restated	97,627	2,554	-	144,077	(18,854)	1,099,853	93,722	1,418,979
<b>Comprehensive income for the year</b>								
Profit for the year	-	-	-	-	-	79,337	-	79,337
<b>Other comprehensive income, net of tax</b>								
Currency translation differences	-	-	-	-	12,745	(24,386)	-	(11,641)
Change in available for sale financial assets	-	-	-	75,240	-	-	-	75,240
Deferred tax on change in available for sale financial assets	-	-	-	(22,572)	-	-	-	(22,572)
Total other comprehensive income for the year	-	-	-	52,668	12,745	(24,386)	-	41,027
<b>Total comprehensive income for the year</b>	-	-	-	52,668	12,745	54,951	-	120,364
<b>Transactions with owners, recorded directly in equity</b>								
Dividends paid to equity holders	-	-	-	-	-	-	(93,722)	(93,722)
- Final for 2009	-	-	-	-	-	(39,051)	-	(39,051)
- Interim for 2010	-	-	-	-	-	(27,336)	27,336	-
- Final for 2010	-	-	-	-	-	(117,153)	117,153	-
- Special for 2010	-	-	-	-	-	-	-	-
<b>At 31 December 2010</b>	<b>97,627</b>	<b>2,554</b>	<b>-</b>	<b>196,745</b>	<b>(6,109)</b>	<b>971,264</b>	<b>144,489</b>	<b>1,406,570</b>

The notes set out on pages 26 to 60 form an integral part of these financial statements.

## Statement of changes in equity of the Company

Year ended 31 December 2011	Share capital KShs'000	Share premium KShs'000	Revaluation surplus KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
At 1 January 2011 – As restated	97,627	2,554	-	196,745	850,334	144,489	1,291,749
<b>Comprehensive income for the year</b>							
Profit for the year	-	-	-	-	109,228	-	109,228
<b>Other comprehensive income, net of tax</b>							
Deferred tax on unrealised loss on mark to market	-	-	-	2,855	-	-	2,855
Change in available for sale financial assets	-	-	-	(105,545)	-	-	( 105,545)
Reversal of deferred tax on change in available for sale financial assets	-	-	-	56,034	-	-	56,034
<b>Total other comprehensive income for the year</b>	-	-	-	( 46,656)	-	-	( 46,656)
<b>Total comprehensive income for the year</b>	-	-	-	( 46,656)	-	-	( 46,656)
<b>Transactions with owners, recorded directly in equity</b>							
Dividends:							
- Final for 2010 (Paid)	-	-	-	-	-	(144,489)	( 144,489)
- Interim for 2011 (Paid)	-	-	-	-	( 39,051)	-	( 39,051)
- Proposed final for 2011	-	-	-	-	( 93,722)	93,722	-
<b>At 31 December 2011</b>	<b>97,627</b>	<b>2,554</b>	<b>-</b>	<b>150,089</b>	<b>826,789</b>	<b>93,722</b>	<b>1,170,781</b>

The notes set out on pages 26 to 60 form an integral part of these financial statements.

## Statement of changes in equity of the Company

Year ended 31 December 2010	Share capital KShs'000	Share premium KShs'000	Revaluation surplus KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
At 1 January 2010 - As previously reported	97,627	2,554	114,815	144,077	970,482	93,722	1,423,277
Impact of change in accounting policy* (Note 2(e))	-	-	(114,815)	-	-	-	(114,815)
At 1 January 2010 - As restated	97,627	2,554	-	144,077	970,482	93,722	1,308,462
Comprehensive income for the year	-	-	-	-	63,392	-	63,392
Profit for the year	-	-	-	-	63,392	-	63,392
Other comprehensive income, net of tax	-	-	-	75,240	-	-	75,240
Change in available for sale financial assets	-	-	-	75,240	-	-	75,240
Deferred tax on change in available for sale financial assets	-	-	-	(22,572)	-	-	(22,572)
Total other comprehensive income for the year	-	-	-	52,668	-	-	52,668
Total comprehensive income for the year	-	-	-	52,668	63,392	-	116,060
Transactions with owners, recorded directly in equity	-	-	-	-	-	(93,722)	(93,722)
Dividends Paid:	-	-	-	-	-	(93,722)	(93,722)
- Final for 2009	-	-	-	-	-	-	-
- Interim for 2010	-	-	-	-	(39,051)	-	(39,051)
- Final for 2010	-	-	-	-	(27,336)	27,336	-
- Special for 2010	-	-	-	-	(117,153)	117,153	-
At 31 December 2010	97,627	2,554	-	196,745	850,334	144,489	1,291,749

\* Information about the nature of prior year adjustment is disclosed in Note 31.

The notes set out on pages 26 to 60 form an integral part of these financial statements.

	Note	2011 KShs'000	2010 KShs'000 Restated
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	258,140	274,640
Tax paid		( 34,406)	( 19,848)
Net cash generated from operating activities		223,734	254,792
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	14(a)	( 85,676)	( 4,085)
Purchase of intangible assets	15	-	( 1,477)
Proceeds from disposal of equipment		929	320
Net proceeds on available for sale		8,353	-
Interest received		22,149	20,762
Dividends received		10,197	10,230
Net cash (used)/generated from investing activities		( 44,048)	25,750
<b>Financing activities</b>			
Dividends paid		(183,540)	(132,773)
Net cash used in financing activities		(183,540)	(132,773)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>( 3,854)</b>	<b>147,769</b>
<b>Movement in cash and cash equivalents</b>			
At the beginning of year		279,889	327,760
Reclassification of investments to Available for sale		-	(193,178)
(Decrease)increase in cash and cash equivalents		( 3,854)	147,769
Effects of exchange rate changes on foreign cash and cash equivalents		( 916)	( 2,462)
<b>At end of year</b>	<b>22</b>	<b>275,119</b>	<b>279,889</b>

**1 REPORTING ENTITY**

The Company is incorporated as a limited Company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Company's registered address is Kitui Road, Industrial Area, PO Box 18010 – 00500, Nairobi. The consolidated financial statements of the Group as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the manufacture of industrial and medical gases and welding products.

The ultimate holding Company of BOC Kenya Limited is Linde A.G., which is a limited liability Company incorporated in Germany.

**2 BASIS OF PREPARATION****(a) Statement of compliance**

The consolidated financial statements of BOC Kenya Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act.

The consolidated financial statements were authorised for issue by the Board of Directors on 2 March 2012

**(b) Basis of measurement**

The financial statements are prepared under the historical cost basis except for available for sale financial assets which are measured at fair value.

**(c) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised and if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4 – *Critical accounting estimates and judgements*.

**(d) Functional and presentation currency**

These consolidated financial statements are presented in Kenya Shillings, which is the Company's functional currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

**(e) Change in accounting policy**

During the year, the Group changed its accounting policy on land and property from valuation model to cost model. The Group believes that subsequent measurement using the cost model provides more relevant information about performance of these assets, and also aligns the accounting policies with those of the ultimate parent company.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

#### (a) Basis of consolidation

##### (i) Subsidiaries

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. In assessing controls, potential voting rights that are presently exercisable are taken into account.

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.

##### (ii) Special purpose entities

The Group has established a special purpose entity (SPE) for trading and investment purposes. The Group has direct shareholding in this entity. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPE controlled by the Group was established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Group receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

##### (iii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (b) Translation of foreign currencies

##### (i) 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**3 SIGNIFICANT ACCOUNTING POLICIES** continued**(b) Translation of foreign currencies****(i) Transactions and balances in Group entities - continued**

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 in profit or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognized in other comprehensive income and included in the fair value reserve in equity.

**(ii) 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 reporting date;
- ii. income and expenses for each income statement 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 in other comprehensive income and presented as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognised in profit or loss 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.

**(c) 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:

- (i) Sales of goods are recognised when significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and when there is no continuing management involvement.
- (i) Sales of services are recognised in the period in which the services are rendered by reference to the completion of specific transactions assessed on the basis of actual service provided as a proportion of total services to be provided. Sales revenue can only be recognised when the associated costs can be estimated reliably and the amount of revenue can be estimated reliably.

**(d) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(d) Finance income and expenses (continued)**

assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(e) Income tax**

Income tax expense is the aggregate of the charge to the income statement in respect of current tax and deferred tax. Current tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the relevant tax legislation, using the tax rates enacted or substantively enacted at the reporting date.

Deferred 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 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 recognized. In addition, deferred tax is not recognised for taxable temporary differences arising on initial recognition of goodwill. Deferred tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related temporary differences reverse.

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. Deferred 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.

**(f) Property, plant and equipment**

All items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is recognised in profit or loss on a straight line basis to write down the cost of each asset to residual values over their estimated useful life as follows:

Buildings	50 years
Plant and machinery	5 - 20 years
Cylinders	25 years
Motor vehicles	5 - 10 years
Furniture and fixtures	4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount and the impairment loss recognised in profit or loss.

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(f) Property, plant and equipment (continued)**

Capital work in progress represents assets that are under construction or that are not immediately available for use, and is not depreciated but reviewed for impairment.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken included in other operating income

**(g) Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised to their residual values over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised to their residual values over their estimated useful lives (not exceeding three years).

**(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 minimum 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 recognised in profit or loss over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the estimated useful life of the asset or the lease term.

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 recognised in profit or loss on a straight-line basis over the period of the lease. Any resulting operating lease accrual or prepayment is recognised over the period of the lease.

**(i) Inventories**

Inventories are measured 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 (based on normal operating activities), 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) Recognition and measurement of financial instruments****(i) Classification**

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. These are classified as follows:

Financial assets at fair value through profit or loss: This category has two subcategories; financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial instruments reclassified in this category are those that the Group holds principally for the purpose of short-term profit taking.

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(j) Recognition and measurement of financial instruments (continued)****(i) Classification (continued)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Loans and receivables comprise receivables and balances due from Group companies.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has positive intent and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale assets are the non-derivative financial assets that are designated as available for sale or are not classified as held for trading purposes, loans and receivables or held to maturity. These include short-term deposits and cash and cash equivalents.

**(ii) Recognition**

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity, loans and receivables are recognised on the date they are transferred to the Group

**(iii) Measurement**

Financial instruments are measured initially at fair value, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and presented within equity until the instrument is derecognised or impaired, at which time the cumulative gain or loss is recognised in profit or loss and trading instrument gains or losses are recognised in profit or loss in the period they arise.

**(iv) Derecognition**

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

**(k) Trade 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

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(k) Trade receivables (continued)**

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 profit or loss.

**(l) Impairment of assets****(i) Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available for sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

**(ii) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(m) 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 for the purposes of the statement of cash flows, bank overdrafts.

**(n) Employee entitlements****(i) Retirement benefit obligations**

The Group operates a defined contribution scheme for all its employees. Contributions to the defined contribution plan are recognised in profit or loss as incurred and presented as an employee benefit expense. Any difference between the amount recognised in profit or loss and the contributions payable is recorded in the statement of financial position under other receivables or other payables.

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(n) Employee entitlements (continued)****(ii) Termination benefits**

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense in profit or loss if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(iii) 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 reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

**(o) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**(p) Dividends**

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

**(q) Provisions**

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(r) Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(s) Related party transactions**

The Group discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and Group or related companies. The related party transactions are at arms length.

**3 SIGNIFICANT ACCOUNTING POLICIES continued****(t) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

**(u) Comparatives**

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

**(v) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective. A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements. These are summarised below and are not expected to have a significant impact on the consolidated financial statements of the Group:

- IFRS 9 Financial Instruments. IFRS 9 will become mandatory for the Group's 2015 consolidated financial statements.
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 Employee Benefits (Amended) (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) Separate Financial Statements (effective 1 January 2013).
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective 1 January 2013).
- Amendments to IAS 1 presentation of items of other comprehensive income (effective 1 July 2012).
- Amendments to IAS 12 Deferred tax: Recovery of underlying assets statements (effective 1 January 2012)
- Amendments to IFRS 7 Disclosures – Transfer of financial assets (effective for annual period beginning 1 July 2011).

**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.

**(a) Critical accounting estimates and assumptions****(i) 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.

**(ii) 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

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** continued**(a) Critical accounting estimates and assumptions (continued)****(ii) Income taxes (continued)**

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.

**(iii) Trade receivables**

The Group assesses its trade receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

**(iv) Inventories**

The Group assesses impairment for inventories at each reporting date. In determining whether inventories are impaired, the Group assesses the age at which inventories are held in the store in order to make an assessment of the impairment loss.

**(v) Property, plant and equipment**

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

**b) 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 and leases.

**5 FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**5 FINANCIAL RISK MANAGEMENT** continued**(a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities

**Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases references. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

**Investments**

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating. Given the good credit ratings, management does not expect any counterparty to fail to meet its obligations

**5 FINANCIAL RISK MANAGEMENT** continued**Write-off policy**

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment allowance has been raised, then that amount will be written off. The determination is reached after considering information such as the occurrence of significant changes in the customer's position such that the customer can no longer pay the obligation.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>2011</b> <b>KShs'000</b>	<b>2010</b> <b>KShs'000</b>
Available for sale financial assets	47,388	30,163
Term Deposits	25,650	24,716
Trade and other receivables	350,414	269,015
	423,452	323,894

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<b>2011</b> <b>KShs'000</b>	<b>2010</b> <b>KShs'000</b>
Kenya	291,746	219,947
Uganda	40,281	29,330
Tanzania	49,682	60,137
	381,709	309,414

The ageing of trade receivables at the reporting date was:

	<b>2011</b> <b>KShs'000</b>	<b>2010</b> <b>KShs'000</b>
Not past due	121,181	59,503
Past due 0-30 days	67,887	78,766
Past due 31-90 days	53,451	50,068
Past due 91-180 days	139,190	42,956
More than 180 days	-	78,121
	381,709	309,414

**Impairment losses**

The movement in the allowances for impairment in respect of receivables during the year was as follows:

	<b>2011</b> <b>KShs'000</b>	<b>2010</b> <b>KShs'000</b>
<b>Trade receivables</b>		
Balance at 1 January	-	-
Impairment of trade receivables	72,496	28,885
Bad debts written off/written back	4,156	74,741
	-	(31,130)
	76,652	72,496
Balance at 31 December (Note 20)	76,652	72,496

**5 FINANCIAL RISK MANAGEMENT** Continued**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below analyses liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the contractual maturity date.

**All figures are in thousands of Kenya shillings KShs '000**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities (2011)</b>						
Trade and other payables	257,622	34,409	157,983	-	-	450,014
Liquidity gap - 2011	257,622	34,409	157,983	-	-	450,014
<b>Liabilities (2010)</b>						
Trade and other payables	175,604	21,451	27,416	92,196	85,347	402,014
Liquidity gap - 2010	175,604	21,451	27,416	92,196	85,347	402,014

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

***Currency risk***

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are ZAR, USD and GBP, UGShs and TShs.

**5 FINANCIAL RISK MANAGEMENT** Continued**(c) Market risk (continued)**  
**Currency risk (continued)**

The Group operates in Kenya, Uganda and Tanzania and its assets and liabilities are carried in the respective local currency. The Group's exposure to foreign currency risk was as follows, based on notional amounts:

All figures are in thousands of Kenya shillings KShs '000)

	USD	GBP	Euro	Rand	Total
<b>Assets</b>					
Trade and other receivables	18,988	939	387	-	20,314
At 31 December 2011	18,988	939	387	-	20,314
<b>Liabilities</b>					
Trade and other payables	(1,861)	(4,381)	(1,286)	(21,783)	(29,311)
At 31 December 2011					
Net balance sheet position - 2011	17,127	(3,442)	(899)	(21,783)	(8,997)

	USD	GBP	Euro	Rand	Total
<b>Assets</b>					
Trade and other receivables	-	-	-	-	-
At 31 December 2010	-	-	-	-	-
<b>Liabilities</b>					
Trade and other payables	23,060	6,550	3,512	46,321	79,443
At 31 December 2010	23,060	6,550	3,512	46,321	79,443
Net balance sheet position - 2010	(23,060)	(6,550)	(3,512)	(46,321)	(79,443)

The following exchange rates were applied in the respective periods:

	Average rates		Closing rates	
	At 31 December 2011	At 31 December 2010	At 31 December 2011	At 31 December 2010
US Dollar	88.80	79.20	85.10	80.75
Sterling Pound	142.47	122.46	132.16	125.99
South African Rand	12.26	10.83	11.76	12.20
Euro	123.64	105.13	110.26	108.04

**5 FINANCIAL RISK MANAGEMENT** Continued**(c) Market risk (continued)****Sensitivity analysis**

A 10 percent strengthening of the Kenyan Shilling against the following currencies at 31 December 2011 would have increased/ decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis is performed on the same basis for 2010.

**Effect in Kenya shillings thousands**

	<b>Profit or Loss</b>	
	<b>2011</b>	<b>2010</b>
As at 31 December		
US Dollar	(1,713)	2,306
GBP	344	655
Euro	89	351
Rand	2,178	4,632

A 10 percent weakening of the Shilling against the above currencies at 31 December 2011 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

## 5 FINANCIAL RISK MANAGEMENT Continued

### (c) Market risk (continued) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group exposure to interest rate risk is with regards to fluctuation in interest rates in the market which affects the returns on the investments held by the Group. The investments are managed by Barclays Security Services who ensure that the Group gets a good return from the investments

As at 31 December 2011	Effective interest rate %	Due within 3 months KShs'000	Due within 3 and 12 months KShs'000	Due within 12 months and 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
<b>ASSETS</b>							
Available-for-sale financial assets	10	-	47,389	33,215	61,801	181,170	323,575
Trade and other receivables	-	-	-	-	-	350,414	350,414
Term deposits	4	-	25,650	-	-	-	25,650
Cash and cash equivalents	-	49,859	-	-	-	225,260	275,119
		<b>49,859</b>	<b>73,039</b>	<b>33,215</b>	<b>61,801</b>	<b>756,844</b>	<b>974,758</b>
<b>LIABILITIES</b>							
Trade and other payables	-	-	-	-	-	<b>450,014</b>	<b>450,014</b>
<b>As at 31 December 2010</b>							
<b>ASSETS</b>							
Available-for-sale financial assets	11	-	30,163	20,723	111,493	277,200	439,579
Trade and other receivables	-	-	-	-	-	269,015	269,015
Term deposits	4	-	24,716	-	-	-	24,716
Cash and cash equivalents	-	146,507	-	-	-	133,382	279,889
		<b>146,507</b>	<b>54,879</b>	<b>20,723</b>	<b>111,493</b>	<b>679,597</b>	<b>1,013,199</b>
<b>LIABILITIES</b>							
Trade and other payables	-	-	-	-	-	<b>402,014</b>	<b>402,014</b>

**5 FINANCIAL RISK MANAGEMENT continued****(c) Market risk (continued)****Interest rate risk - continued****Sensitivity analysis****Sensitivity analysis on interest rates**

increase of one percentage point in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2010.

**Effect in Kenyan Shillings thousands**

	Profit or loss	
	2011	2010
Available for sale financial assets	3,236	2,784

A decrease of one percentage point in interest rates at the reporting date would have had an equal but opposite effect on the profit or loss, on the basis that all other variables remain constant.

**Equity price risk**

The Group is exposed to fluctuation in the market price on its equity investment. The fair value of the investment at 31 December 2011 and 2010 is as follows

	2011	2010
Available-for-sale financial asset	181,170	277,200

**Sensitivity analysis****Sensitivity analysis on equity prices**

A decrease of 10% in the share prices would have the following effect on the fair value.

**Effect in Shillings thousands**

	Reserves	
	2011	2010
Available for sale securities	18,117	27,720

## 5 FINANCIAL RISK MANAGEMENT Continued

## (d) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities is the same as the carrying amounts as shown in the balance sheet.

2011	Designated at fair value KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	amortised cost KShs '000	Other carrying value KShs '000	Total Fair Value KShs '000
<b>Financial Assets</b>							
Available for sale financial assets	-	-	323,575	-	-	323,575	323,575
Trade and other receivables	-	350,414	-	-	-	350,414	350,414
Term deposits	-	-	25,650	-	-	-	25,650
Cash and cash equivalents	-	275,119	-	-	-	275,119	275,119
	-	<b>625,533</b>	<b>349,225</b>	-	-	<b>949,108</b>	<b>974,758</b>
<b>Financial Liabilities</b>							
Trade and other payables	-	-	-	-	<b>450,014</b>	<b>450,014</b>	<b>450,014</b>
<b>2010</b>							
<b>Financial Assets</b>							
Available for sale financial assets	-	-	439,579	-	-	439,579	439,579
Term deposits	-	-	24,716	-	-	-	24,716
Trade and other receivables	-	269,015	-	-	-	269,015	269,015
Cash and cash equivalents	-	279,889	-	-	-	279,889	279,889
	-	<b>548,904</b>	<b>464,295</b>	-	-	<b>988,483</b>	<b>1,013,199</b>
<b>Financial Liabilities</b>							
Trade and other payables	-	-	-	-	<b>402,014</b>	<b>402,014</b>	<b>402,014</b>

**5 FINANCIAL RISK MANAGEMENT continued****(d) Fair value of financial assets and financial liabilities (continued)****Fair value hierarchy**

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Listed equities and treasury bonds	None	None
Types of financial liabilities:	None	None	None

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2011:

<b>31 December 2011:</b>	<b>Level 1 KShs'000</b>	<b>Level 2 KShs'000</b>	<b>Level 3 KShs'000</b>	<b>Total KShs'000</b>
<b>Assets</b>				
Available-for-sale financial assets	323,575	-	-	323,575
<b>Total assets</b>	<b>323,575</b>	<b>-</b>	<b>-</b>	<b>323,575</b>
<b>31 December 2010:</b>	<b>Level 1 KShs'000</b>	<b>Level 2 KShs'000</b>	<b>Level 3 KShs'000</b>	<b>Total KShs'000</b>
<b>Assets</b>				
Available-for-sale financial assets	439,579	-	-	439,579
<b>Total assets</b>	<b>439,579</b>	<b>-</b>	<b>-</b>	<b>439,579</b>

**(a) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There is no externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year.

**6 SEGMENT INFORMATION**

The Group has three reportable segments which are the strategic business units in the following regions:

- Kenya;
- Tanzania; and
- Uganda.

For each of the strategic business units, the Board reviews internal management reports. Information regarding the results of each reportable segment is described below. Performance is measured based on each segment profit before tax as indicated in the internal management reports that are reviewed by the Board.

<b>Year ended 31 December 2011</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Total KShs'000</b>
Sales	1,011,824	102,095	91,453	1,205,372
Operating profit	129,061	24,091	36,302	189,454
Finance income	26,441	2,526	(3,473)	25,494
Profit before income tax	155,502	26,617	32,829	214,948
Income tax expense	(46,274)	(8,004)	(10,066)	(64,344)
<b>Profit for the year</b>	<b>109,228</b>	<b>18,613</b>	<b>22,763</b>	<b>150,604</b>
<b>Year ended 31 December 2010</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Total KShs'000</b>
Sales	970,150	115,172	70,057	1,155,379
Operating profit	62,317	4,839	16,332	83,488
Finance income	28,528	1,688	981	31,197
Profit before income tax	90,845	6,527	17,313	114,685
Income tax expense	(27,452)	(2,702)	(5,194)	(35,348)
<b>Profit for the year</b>	<b>63,393</b>	<b>3,825</b>	<b>12,119</b>	<b>79,337</b>
Other segment items included in the income statement are:				
<b>Year ended 31 December 2010</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Total KShs'000</b>
Depreciation	65,571	1,105	995	67,671
Amortisation of intangible assets	1,288	-	-	1,288
Amortisation of operating leases	105	-	-	105
Impairment of inventories	(3,654)	(1,382)	73	(4,963)
Impairment of trade receivables	8,983	(9,017)	4,190	4,156

**6 SEGMENT INFORMATION continued**

Year ended 31 December 2010 KShs'000	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total
Depreciation	68,370	1,189	970	70,529
Amortisation of intangible assets	1,493	-	-	1,493
Amortisation of operating leases	105	-	-	105
Impairment of inventories	49,277	11,685	922	61,884
Impairment of trade receivables	45,200	23,560	5,981	74,741

The segment assets and liabilities at 31 December 2011 and capital expenditure for the period then ended are as follows:

Year ended 31 December 2011 KShs'000	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total
Assets	1,558,324	139,052	119,427	1,816,803
Liabilities	346,265	65,456	38,293	450,014
Capital expenditure:				
(i) Additions to property, plant and equipment	85,676	-	-	85,676
(ii) Additions to intangible assets	-	-	-	-

Year ended 31 December 2010 KShs'000	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Total
Assets	1,819,689	9,851	80,270	2,019,810
Liabilities	359,804	28,625	13,585	402,014
Capital expenditure:				
(i) Additions to property, plant and equipment	3,780	-	305	4,085
(ii) Additions to intangible assets	1,477	-	-	1,477

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

Segment liabilities comprise operating liabilities. They exclude tax and corporate borrowings.

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

**7 OTHER OPERATING INCOME**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Profit on disposal of property, plant and equipment	929	320	929	320

**8 EMPLOYEE BENEFIT EXPENSES**

The following items are included within staff costs:

Social security benefits	1,084	358	227	244
Retirement benefits costs:				
- defined contribution scheme	11,423	12,281	11,059	11,622

The number of persons employed by the Group at the end of the year was 95 (2010: 105).

**9 FINANCE INCOME**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Interest income on short term investments	19,864	20,762	17,598	18,628
Net foreign currency exchange (loss)/gain	(4,270)	535	(1,057)	-
Dividend income	9,900	9,900	9,900	9,900
Finance income recognised in profit/(loss)	25,494	31,197	26,441	28,528

Dividend income represents interim and final dividends from investment in the shares of a Company that is listed on the Nairobi Stock Exchange (Note 17).

**10 PROFIT BEFORE TAXATION**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Repairs and maintenance expenditure on property, plant and equipment	17,714	19,620	17,414	18,414
Employee benefits expense	175,015	194,447	166,630	185,610
Directors' remuneration				
- Fees	3,018	3,173	3,018	3,173
- Salaries and short term benefits	26,082	17,327	26,082	17,327
Depreciation	67,671	70,529	65,570	68,370
Amortisation of intangible assets	1,288	1,493	1,288	1,493
Operating leases charges	105	105	105	105
Auditors remuneration	3,750	3,843	2,961	3,003
And after crediting:				
Profit on disposal of property, plant and equipment	929	320	929	320

**11 INCOME TAX EXPENSE**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Current tax – Current period	72,389	47,264	57,856	35,303
Deferred tax (Note 25)	(8,045)	(13,053)	(11,582)	(8,400)
Under provision of current tax in prior years	-	1,439	-	1,439
Over provision of deferred tax in prior years	-	(302)	-	(890)
	64,344	35,348	46,274	27,452

**11 INCOME TAX EXPENSE continued**

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

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Profit before tax	214,948	114,685	155,502	90,845
Tax calculated at a tax rate of 30% (2010 - 30%)	64,484	34,406	46,650	27,253
Tax effect of:				
- Dividend income taxed at 5%	(2,917)	(2,475)	(2,474)	(2,475)
- Expenses not deductible for tax purposes	2,757	2,280	2,098	2,124
Under provision of current tax in prior years	-	1,439	-	550
Over provision of deferred tax in prior years	-	(302)	-	-
Impact of exchange rate	20	-	-	-
Tax charge	64,344	35,348	46,274	27,452

**12 EARNINGS PER SHARE**

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

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Net profit attributable to shareholders	150,604	79,337	109,228	63,393
Weighted average number of ordinary shares in issue	19,525	19,525	19,525	19,525
Basic earnings per share (Shs)	7.71	4.06	5.59	3.25

There were no potentially dilutive shares outstanding at 31 December 2011 or 31 December 2010.

**13 DIVIDENDS PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. At the next annual general meeting a final dividend in respect of the year ended 31 December 2011 of KShs 4.80 per share (2010: KShs 1.40 per share), amounting to a total of KShs 93,722,141 (2010: KShs 27,335,624) and a special dividend of KShs nil (2010: KShs 6.00, KShs 117,152,676) is to be proposed. During the year, an interim dividend of KShs 2.00 per share (2010: KShs 2.00 per share), amounting to a total of KShs 39,050,892 (2010: KShs 39,050,892) was paid. The total dividend for the year is therefore KShs 6.80 per share (2010: KShs 9.40), amounting to a total of KShs 132,773,033 (2010: KShs 183,539,192).

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

**14 PROPERTY, PLANT AND EQUIPMENT**

(a) Group - 2011	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost or valuation</b>						
At 1 January 2011	95,770	602,587	528,325	87,236	6,976	1,320,894
Additions		1,157	34,202	769	49,548	85,676
Disposals				(129)		(129)
Transfers			222		(222)	
Currency translation differences	29	1,127	2,758	117	-	4,031
At 31 December 2011	95,799	604,871	565,507	87,993	56,302	1,410,472
<b>Depreciation</b>						
At 1 January 2011	(23,071)	(413,148)	(177,652)	(82,862)	-	(696,733)
Charge for the year	(5,239)	(33,959)	(25,912)	(2,561)	-	(67,671)
Disposals	-	-	-	129	-	129
Currency translation differences	(23)	(333)	(548)	(89)	-	(993)
At 31 December 2011	28,333	447,440	204,112	85,383	-	765,268
<b>Carrying value</b>						
At 31 December 2011	<b>67,466</b>	<b>157,431</b>	<b>361,395</b>	<b>2,610</b>	<b>56,302</b>	<b>645,204</b>

**14 PROPERTY, PLANT AND EQUIPMENT continued****(a) Group - 2010**

	<b>Buildings</b> KShs'000	<b>Plant and motor vehicles</b> KShs'000	<b>Cylinders</b> KShs'000	<b>Furniture and equipment</b> KShs'000	<b>Capital work in progress</b> KShs'000	<b>Total</b> KShs'000
<b>Cost or valuation</b>						
At 1 January 2010 – As previously reported	209,702	604,199	525,355	85,899	11,699	1,436,854
Prior year adjustment	(114,815)	-	-	-	-	(114,815)
As restated	94,887	604,199	525,355	85,899	11,699	1,322,039
Additions	-	305	492	1,467	1,821	4,085
Disposals	-	(703)	-	-	-	(703)
Transfers	930	125	5,489	-	(6,544)	-
Currency translation differences	(47)	(1,339)	(3,011)	(130)	-	(4,527)
At 31 December 2010	95,770	602,587	528,325	87,236	6,976	1,320,894
<b>Depreciation</b>						
At 1 January 2010	(17,848)	(376,997)	(152,612)	(80,258)	-	(627,715)
Charge for the year	(5,264)	(37,322)	(25,236)	(2,707)	-	(70,529)
Disposals	-	703	-	-	-	703
Currency translation differences	41	468	196	103	-	808
At 31 December 2010	(23,071)	(413,148)	(177,652)	(82,862)	-	(696,733)
<b>Carrying value</b>						
<b>At 31 December 2010</b>	<b>72,699</b>	<b>189,439</b>	<b>350,673</b>	<b>4,374</b>	<b>6,976</b>	<b>624,161</b>
<b>Group - 2009</b>						
<b>Cost or valuation</b>						
At 1 January 2010 – As previously reported	209,862	564,816	411,977	85,442	108,944	1,381,041
Prior year adjustment	(114,815)	-	-	-	-	(114,815)
As restated	95,047	564,816	411,977	85,442	108,944	1,266,226
Additions	22	7,477	23,628	484	28,669	60,280
Disposals	-	-	-	-	-	-
Transfers	-	33,993	91,933	(125,926)	-	-
Currency translation differences	(182)	(2,087)	(2,183)	(27)	12	(4,467)
At 31 December 2010	94,887	604,199	525,355	(40,027)	137,625	1,322,039
<b>Depreciation</b>						
At 1 January 2010	(12,640)	(340,374)	(129,889)	(77,561)	-	(560,464)
Charge for the year	(5,274)	(37,218)	(22,839)	(2,639)	-	(67,970)
Currency translation differences	66	595	116	(58)	-	719
At 31 December 2010	(17,848)	(376,997)	(152,612)	(80,258)	-	(627,715)
<b>Carrying value</b>						
<b>At 31 December 2010</b>	<b>77,039</b>	<b>227,202</b>	<b>372,743</b>	<b>(120,285)</b>	<b>137,625</b>	<b>694,324</b>

**14 PROPERTY, PLANT AND EQUIPMENT continued****(a) Company - 2011**

	<b>Buildings KShs'000</b>	<b>Plant and motor vehicles KShs'000</b>	<b>Cylinders KShs'000</b>	<b>Furniture and equipment KShs'000</b>	<b>Capital work in progress KShs'000</b>	<b>Total KShs'000</b>
Cost or valuation						
At 1 January 2010	113,047	589,844	500,064	29,067	3,947	1,235,969
Additions	-	1,157	34,202	769	49,548	85,676
Disposals	-	-	-	(129)	-	(129)
Transfers	-	-	222	-	(222)	-
<b>At 31 December 2010</b>	<b>113,047</b>	<b>591,001</b>	<b>534,488</b>	<b>29,707</b>	<b>53,273</b>	<b>1,321,516</b>
Depreciation						
At 1 January 2010	(40,253)	(408,889)	(168,047)	(21,796)	-	(638,985)
Charge for the year	(5,207)	(33,173)	(24,722)	(2,468)	-	(65,570)
Disposals	-	-	-	129	-	129
<b>At 31 December 2010</b>	<b>(45,460)</b>	<b>(442,062)</b>	<b>(192,769)</b>	<b>(24,135)</b>	<b>-</b>	<b>(704,426)</b>
<b>Carrying value At 31 December 2011</b>	<b>67,587</b>	<b>148,939</b>	<b>341,719</b>	<b>5,572</b>	<b>53,273</b>	<b>617,090</b>

**(a) Company - 2010**

	<b>Buildings KShs'000</b>	<b>Plant and motor vehicles KShs'000</b>	<b>Cylinders KShs'000</b>	<b>Furniture and equipment KShs'000</b>	<b>Capital work in progress KShs'000</b>	<b>Total KShs'000</b>
Cost or valuation						
At 1 January 2010 - As previously reported	226,932	590,422	494,083	27,600	8,670	1,347,707
Prior year adjustment	(114,815)	-	-	-	-	(114,815)
As restated	112,117	590,422	494,083	27,600	8,670	1,232,892
Additions	-	-	492	1,467	1,821	3,780
Disposals	-	(703)	-	-	-	(703)
Transfers	930	125	5,489	-	(6,544)	-
<b>At 31 December 2010</b>	<b>113,047</b>	<b>589,844</b>	<b>500,064</b>	<b>29,067</b>	<b>3,947</b>	<b>1,235,969</b>
Depreciation						
At 1 January 2010	(35,093)	(373,026)	(143,981)	(19,218)	-	(571,318)
Charge for the year	(5,160)	(36,566)	(24,066)	(2,578)	-	(68,370)
Disposals	-	703	-	-	-	703
<b>At 31 December 2010</b>	<b>(40,253)</b>	<b>(408,889)</b>	<b>(168,047)</b>	<b>(21,796)</b>	<b>-</b>	<b>(638,985)</b>
<b>Carrying value At 31 December 2010</b>	<b>72,794</b>	<b>180,955</b>	<b>332,017</b>	<b>7,271</b>	<b>3,947</b>	<b>596,984</b>

**14 PROPERTY, PLANT AND EQUIPMENT continued**

(a) Company - 2009	Buildings KShs'000	Plant and motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost or valuation</b>						
<b>At 1 January 2009 –</b>						
As previously reported	208,513	544,482	379,817	81,269	105,927	1,320,008
Prior year adjustment	(114,815)	-	-	-	-	(114,815)
As restated	93,698	544,482	379,817	81,269	105,927	1,205,193
Additions	22	7,477	23,628	484	28,669	60,280
Adjustments	18,397	4,470	(1,295)	(54,153)	-	(32,581)
Transfers	-	33,993	91,933	-	(125,926)	-
At 31 December 2009	112,117	590,422	494,083	27,600	8,670	1,232,892
<b>Depreciation</b>						
At 1 January 2009	(11,551)	(332,656)	(123,729)	(70,903)	-	(538,839)
Charge for the year	(5,145)	(35,900)	(21,547)	(2,467)	-	(65,059)
Adjustments	(18,397)	(4,470)	1,295	54,152	-	32,580
At 31 December 2009	(35,093)	(373,026)	(143,981)	(19,218)	-	(571,318)
<b>Carrying value</b>						
<b>At 31 December 2009</b>	<b>77,024</b>	<b>217,396</b>	<b>350,102</b>	<b>8,382</b>	<b>8,670</b>	<b>661,574</b>

Included in property, plant and equipment are assets with a gross value of KShs 276,050,210 (2010: KShs 166,041,050) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 26,507,110 (2010 – KShs 15,813,091).

There were no idle assets at 31 December 2011 and 2010.

There was no property held as security as at 31 December 2011 and 2010.

**15 INTANGIBLE ASSETS**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
<b>Cost</b>				
At the beginning of year	14,645	13,168	14,645	13,164
Additions	-	1,477	-	1,477
Adjustments	2,934	-	2,934	-
Foreign currency translation differences	-	-	-	-
At end of year	17,579	14,645	17,579	14,641
<b>Accumulated amortisation and impairment losses</b>				
At the beginning of year	11,722	10,229	11,722	10,225
Charge for the year	1,288	1,493	1,288	1,493
Adjustments	2,934	-	2,934	-
Foreign currency translation differences	-	-	-	-
At end of year	15,944	11,722	15,944	11,718
<b>Net carrying amount at 31 December</b>	<b>1,635</b>	<b>2,923</b>	<b>1,635</b>	<b>2,923</b>

**16 INVESTMENT IN SUBSIDIARIES**

Company	Percentage shareholding	2011 KShs'000	2010 KShs'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.

**17 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

<b>Group and Company</b>	<b>2011 KShs'000</b>	<b>2010 KShs'000</b>
At Non-current		
Shares in quoted company	181,170	277,200
Treasury bonds	61,802	111,493
Corporate bonds	33,215	20,723
	<b>276,187</b>	<b>409,416</b>
<b>Current</b>		
Treasury bonds	47,388	-
Corporate bonds	-	30,163
	<b>47,388</b>	<b>30,163</b>

The weighted average effective interest rate on the treasury bonds at year-end was 10% (2010: 11%).

**18 PREPAID OPERATING LEASES**

<b>Group and Company</b>	<b>2011 KShs'000</b>	<b>2010 KShs'000</b>
Leases expiring beyond five years		
At start of year	3,800	3,905
Operating lease charges	(105)	(105)
<b>At end of year</b>	<b>3,695</b>	<b>3,800</b>

**19 INVENTORIES**

	<b>Group</b>		<b>Company</b>	
	<b>2011 KShs'000</b>	<b>2010 KShs'000</b>	<b>2011 KShs'000</b>	<b>2010 KShs'000</b>
Raw materials	21,076	21,004	21,017	20,925
Finished goods and other saleable stock	146,672	181,770	131,709	166,189
Plant spares	36,366	29,519	36,360	27,457
Goods in transit	13,875	26,055	13,553	25,287
Work in progress	831	6,473	831	6,432
Inventories impairment	(27,309)	(32,272)	(24,066)	(27,720)
	<b>191,511</b>	<b>232,549</b>	<b>179,404</b>	<b>218,570</b>

**20 TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Trade receivables	381,709	309,414	291,746	260,468
Less: Allowance for impairment	(76,652)	(72,496)	(48,889)	(39,906)
	305,057	236,918	242,857	220,562
Staff debtors	1,102	184	1,102	79
Prepayments	8,630	5,249	6,430	4,158
Receivables from related companies (Note 30(b))	4,242	1,639	34,084	1,639
Other receivables	31,383	25,025	25,386	16,493
	<b>350,414</b>	<b>269,015</b>	<b>309,859</b>	<b>242,931</b>

**21 TERM DEPOSITS**

Term deposits comprise fixed and call deposits whose maturities extend beyond three months.

**22 CASH AND CASH EQUIVALENTS**

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

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Cash at bank and in hand	225,260	133,382	134,504	112,624
Fixed and call deposits	49,859	146,507	9,033	84,465
	<b>275,119</b>	<b>279,889</b>	<b>143,537</b>	<b>197,089</b>

**23 SHARE CAPITAL AND SHARE PREMIUM****(a) Share capital**

	Number of shares Thousands	Ordinary shares KShs'000
Authorised	20,000	100,000
Issued and fully paid 2011 and 2010	19,525	97,627

The total authorised number of ordinary shares is 20,000,000 with a par value of Shs 5 per share. The total issued number of ordinary shares is 19,525,446. All issued shares are fully paid up.

**(b) Share premium**

Share premium arose when the shares of the company were issued at a price higher than the nominal (par) value.

**24 REVALUATION SURPLUS AND TRANSLATION RESERVES****a) Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, recognised in other comprehensive income excluding impairment losses, until the investment is derecognised.

**b) Foreign currency translation reserve**

Translation reserves relate to differences arising from closing and opening exchange rates applicable to assets and liabilities in the subsidiaries.

**25 DEFERRED TAX**

Deferred tax is calculated, in full, on all temporary differences under the balance sheet method using a principal tax rate of 30% (2010: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
At the beginning of year	96,411	87,083	103,528	90,246
Recognised in profit or loss (Note 11)	(8,045)	(13,053)	(12,079)	(9,290)
Recognised in other comprehensive income	(56,034)	22,572	(56,034)	22,572
Over provision in prior years (Note 11)	-	(302)	-	-
Unrealised loss on mark to market investments	(2,854)	-	(2,854)	-
Currency translation differences	(16)	111	-	-
<b>At end of year</b>	<b>29,462</b>	<b>96,411</b>	<b>32,561</b>	<b>103,528</b>

Consolidated deferred tax assets and liabilities and deferred tax charge/(credit) in the profit or loss account are attributable to the items overleaf:

**25 DEFERRED TAX continued****a) Group**

<b>Year ended 31 December 2011</b>	<b>At 1.01.2011 Kshs '000</b>	<b>Recognized in profit or loss Kshs '000</b>	<b>Foreign currency translation differences Kshs '000</b>	<b>Recognized in other comprehensive income Kshs '000</b>	<b>At 31.12.2011 Kshs '000</b>
Property, plant and equipment	86,315	(5,627)	-	-	80,688
Change in fair value of available for sale assets	56,034	-	-	(56,034)	-
Unrealized loss on mark to market investments	-	-	-	(2,854)	(2,854)
Provisions	(45,181)	(3,056)	(16)	-	(48,253)
Over provision in prior year	(302)	302	-	-	-
Unrealized exchange losses /(gains)	(455)	336	-	-	(119)
<b>Total</b>	<b>96,411</b>	<b>(8,045)</b>	<b>(16)</b>	<b>(58,888)</b>	<b>29,462</b>

<b>Year ended 31 December 2010</b>	<b>At 1.01.2010 Kshs '000</b>	<b>Recognized in profit or loss Kshs '000</b>	<b>Foreign currency translation differences Kshs '000</b>	<b>Recognized in other comprehensive income Kshs '000</b>	<b>At 31.12.2010 Kshs '000</b>
Property, plant and equipment	116,542	(30,227)	-	-	86,315
Change in fair value of available for sale assets	33,462	-	-	22,572	56,034
Provisions	(63,511)	18,219	111	-	(45,181)
Over provision in prior year	-	(302)	-	-	(302)
Unrealised exchange losses /(gains)	590	(1,045)	-	-	(455)
<b>Total</b>	<b>87,083</b>	<b>(13,355)</b>	<b>(111)</b>	<b>22,572</b>	<b>96,411</b>

<b>Year ended 31 December 2011</b>	<b>At 1.01.2011 Kshs '000</b>	<b>Recognized in profit or loss Kshs '000</b>	<b>Recognized in other comprehensive income Kshs '000</b>	<b>At 31.12.2011 Kshs '000</b>
Property, plant and equipment	79,657	(5,321)	-	74,336
Change in fair value of available for sale assets	56,034	-	(56,034)	-
Unrealized loss on mark to market investments	-	(2,854)	-	(2,854)
Provisions	(31,644)	(7,156)	-	(38,800)
Unrealised exchange losses /(gains)	(519)	398	-	(121)
	<b>103,528</b>	<b>(14,933)</b>	<b>(56,034)</b>	<b>32,561</b>

**25 DEFERRED TAX continued**

Year ended 31 December 2010	Recognized in			At 31.12.2010 Kshs '000
	At 1.01.2010 Kshs '000	Recognized in profit or loss Kshs '000	other comprehensive income Kshs '000	
Property, plant and equipment	115,824	(36,167)	-	79,657
Change in fair value of available for sale assets	33,462	-	22,572	56,034
Provisions	(59,619)	27,975	-	(31,644)
Unrealized exchange losses/gains)	579	(1,098)	-	(519)
	<b>90,246</b>	<b>(9,290)</b>	<b>22,572</b>	<b>103,528</b>

**26 TRADE AND OTHER PAYABLES**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Cylinder deposits	161,441	163,054	140,233	141,635
Trade payables	156,966	114,865	114,836	102,439
Amounts due to related companies (Note 30(d))	40,941	51,351	59,383	51,351
Accruals and other payables	90,666	72,744	83,515	64,379
	<b>450,014</b>	<b>402,014</b>	<b>397,967</b>	<b>359,804</b>

**27 CASH GENERATED FROM OPERATIONS**

Reconciliation of profit before tax to cash generated from operations:

	Note	2011 KShs'000	2010 KShs'000
Profit before tax		214,948	114,685
Adjustments for:			
Depreciation	14(a)	67,671	70,529
Amortisation of intangible assets	15	1,288	1,493
Operating lease charges	18	105	105
Profit on sale of property and equipment	7	(929)	(320)
Effect of foreign currency translations		(1,408)	(6,073)
Interest income		(20,104)	(20,762)
Dividend income	9	(9,900)	(9,900)
Changes in working capital:			
- trade and other receivables		(82,569)	99,307
- inventories		41,038	(8,914)
- trade and other payables		48,000	34,490
<b>Cash generated from operations</b>		<b>258,140</b>	<b>274,640</b>

**28 CONTINGENT LIABILITIES**

At 31 December 2011, the Company had given guarantees amounting to Kshs 440,000 (2010: KShs 28,522,491) on behalf of third parties.

There are certain pending legal claims brought against the Company as at 31 December 2011 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.

**29 CAPITAL COMMITMENTS**

At 31 December 2011, the Company had KShs 11,765,579 outstanding capital commitments (2010: Kshs 14,539,134).

**30 RELATED PARTY TRANSACTIONS****Group**

The ultimate parent of the Group is Linde Group incorporated in the 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:

**a) Purchase of goods and services from related parties - Group**

	2011 KShs'000	2010 KShs'000
BOC Group plc	15,386	7,716
African Oxygen Limited	61,756	69,473
Cryostar Limited – France	8,330	1,322
	85,472	78,511

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

**b) Outstanding balances included in receivables**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
BOC Zambia Limited	844	677	844	677
BOC Nigeria Limited	962	962	962	962
African Oxygen Limited	2,436	-	2,436	-
BOC Tanzania	-	-	11,837	-
BOC Uganda	-	-	18,005	-
	4,242	1,639	34,084	1,639

**30 RELATED PARTY TRANSACTIONS continued****c) Outstanding balances arising from purchase of goods and services included in payables**

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
BOC Group plc	5,586	5,858	5,586	5,858
African Oxygen Limited	34,729	45,453	34,729	45,453
Afrox Zambia Limited	-	40	-	-
BOC Tanzania Limited	-	-	18,442	-
BOC Zimbabwe Limited	626	-	626	-
	40,941	51,351	59,383	51,351

**d) Key management compensation**

	2011 KShs'000	2010 KShs'000
Salaries and short term benefits	46,174	33,778
Termination benefits	2,572	18,749
	48,747	52,529

Key management compensation relates to salary and benefits paid to the executive director.

**c) Directors' remuneration**

	2011 KShs'000	2010 KShs'000
- Fees	3,018	3,173
- Salaries and short term benefits	26,082	17,327
	29,100	20,500

**31 PRIOR YEAR ADJUSTMENTS**

Prior year adjustments relates to the impact of change in accounting policy on land and property from valuation model to cost model. The impact of change is as follows:

	Amount initially reported at 1 January 2010 KShs'000	Change arising from prior year adjustment KShs'000	Restated balance at 1 January 2010 KShs'000
Effects on the statement of changes in equity			
<b>Group and company:</b>			
Revaluation surplus	114,815	(114,815)	-
Effects on statement of financial position			
<b>Group:</b>			
Property, plant and equipment	1,436,854	(114,815)	1,322,039
<b>Company:</b>			
Property, plant and equipment	1,347,707	(114,815)	1,232,892





# PROXY

**NOTE:**

In accordance with section 136(2) of the Companies Act (Cap. Act 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy, to attend and vote on his/her behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to the Company Secretary, to arrive not later than 48 hours before the meeting or any adjournment thereof.

PROXY FORM  
BOC KENYA LIMITED

TO: The Company Secretary,  
BOC Kenya Limited  
P.O. Box 18010 - 00500  
NAIROBI

I/We .....

of .....

being a member/members of the above named Company hereby appoint:

.....

of .....

or failing him/her .....

of .....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 4 May 2012 at BOC Factory site on Kitui Road Industrial Area, Nairobi, and at any adjournment thereof.

Signed by me/us and Sealed this ..... Day of ..... 2012

Signature: .....

NOTE: The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof. In case of a Corporation, the Proxy must be executed under the Common Seal.

Fold 2

STICK  
STAMP  
HERE

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

Fold 1

Fold 3

Insert flap inside



BOC Kenya Limited  
Kitui Road Limited  
P.O. Box 18010  
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Tel: +254 20 6944000  
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Email: bocinfo@boc.co.ke

[www.boc.co.ke](http://www.boc.co.ke)

 **BOC GASES**  
A Member of The Linde Group

