

# GETTING STRONGER

BOC KENYA LIMITED  
ANNUAL REPORT  
2016



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### FORM OF PROXY

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# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Seventy-Sixth Annual General Meeting of BOC Kenya Limited will be held at the Company's Head Office and factory site, Kitui Road, Industrial Area, Nairobi, on 21 June, 2017, at 11:00 a.m. for the following purposes:-

## Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December, 2016, together with the reports of the Chairman, Directors and Auditors thereon.
2. To confirm the interim dividend of KShs 2.20 per ordinary share paid on 2 October, 2016 and to declare a final dividend of KShs 3.00 per ordinary share, payable, net of Withholding Tax, on or about 13 July, 2017 to Shareholders on the Register at the close of business on 13 May, 2017.
3. To elect Directors:
  - (i) Mr. A. Gouws retires and being eligible, offers himself for re-election in accordance with Article 98 of the Articles of Association.
  - (ii) Mr. R. Mbugua and Mrs. L. Njoroge retire by rotation and both being eligible, offer themselves for re-election in accordance with Article 93 of the Articles of Association.
  - (iii) Pursuant to the provisions of Section 769 of the Companies Act 2015, Mr. R. Mbugua, Mr. M. Kruger, Mrs. L. Njoroge and Mrs. C. Wetende being Members of the Board Audit Committee, be elected to continue to serve as Members of the said Committee.
4. To approve the remuneration of Directors and the Directors Remuneration Report for the year ended 31 December, 2016.
5. To re-appoint Messrs KPMG Kenya as Auditors of the Company by virtue of section 721(2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for their ensuing year.

## Special Business

1. To consider and if appropriate, pass the following Special Resolution:  
**"That the name of the Company be changed from BOC Kenya Limited to BOC Kenya plc"**
2. To consider and if appropriate, pass the following Special Resolution:  
**"That in compliance with provisions of the new Companies Act 2015, the existing Articles of Association of the Company be deleted in their entirety and that new Articles of Association, initialled for the purposes of identification by the Chairman of the Company, be approved and adopted in substitution thereof."**

## By Order of the Board

### R. T. Ngobi (Ms.)

Company Secretary  
Kitui Road, Industrial Area  
P O Box 18010-00500  
Nairobi

**30 March, 2017**

## Notice of annual general meeting - *continued*

### NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. Such proxy need not be a member of the Company.
2. A proxy form is provided with this report. The proxy form can also be obtained from the Company's website ([www.boc.co.ke](http://www.boc.co.ke)).

Shareholders who do not propose to be at the Annual General Meeting and intend to appoint a proxy are requested to do the following:

- Complete the form provided and attach a copy of your National ID and a copy of the National ID of the proxy appointed.
- Return the form (plus copies of the National ID's) to the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, P.O. Box 8484-00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than **2:30 p.m. on 19 June 2017**.

Duly signed proxy forms together with ID copies may also be emailed to [proxy@candrgroup.co.ke](mailto:proxy@candrgroup.co.ke) in PDF format.

3. **The new Articles of Association are available on the Company's website, [www.boc.co.ke](http://www.boc.co.ke), the Company's registered office and the offices of the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, P.O. Box 8484-00100, Nairobi.**
4. In accordance with the Company's Articles of Association, a copy of the entire Annual Report and Financial Statements may be viewed and or downloaded from the Company's website ([www.boc.co.ke](http://www.boc.co.ke)).



**BOC  
GASES**

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Mr. N. Kiuna*	Chairman
Mrs. M. Onyonyi	Managing Director (Appointed 1 April 2016)
Mr. A. Kamau	Finance Director
Mr. R. Mbugua**	
Mr. M. Kruger*	
Mrs. L. Njoroge**	
Mrs. C. Wetende**	
Mr. N. Adams*	(Resigned 31 August 2016)
Mr. A. Gouws*	(Appointed 1 November 2016)
Ms. R.T. Ngobi	(Company Secretary)

## AUDIT AND RISK COMMITTEE

Mr. R. Mbugua**	(Chairman)
Mr. M. Kruger*	
Mrs. L. Njoroge**	
Mrs. C. Wetende**	
Mrs. M. Onyonyi	(Permanent invitee)
Mr. A. Kamau	(Permanent invitee)
Ms. R.T. Ngobi	(Secretary)

## NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE

Mr. N. Kiuna*	(Chairman)
Mr. M. Kruger*	
Mr. R. Mbugua**	
Mrs. M. Onyonyi	(Permanent invitee)
Ms. R.T. Ngobi	(Secretary)

## RETIREMENT AND REMUNERATIONS COMMITTEE

Mrs. L. Njoroge**	(Chairman)
Mr. A. Gouws*	
Mrs. C. Wetende**	
Mrs. M. Onyonyi	(Permanent invitee)
Mr. A. Kamau	(Permanent invitee)
Mrs. S. Onyoni	(Permanent invitee)
Ms R.T. Ngobi	(Secretary)

\*Non- Executive Directors

\*\*Independent Non-Executive Directors

## AUDITOR

KPMG Kenya,  
ABC Towers  
ABC Place  
Waiyaki Way  
P. O. Box 40612-00100  
NAIROBI

## TRANSFER AGENTS

Custody & Registrar Services Limited,  
Bruce House, 6th Floor, Standard Street,  
P. O. Box 8484-00100,  
NAIROBI

## ADVOCATES

Kaplan & Stratton,  
Williamson House,  
4th Ngong Avenue,  
P.O. Box 4011-00100  
NAIROBI

Daly & Inamdar Advocates  
ABC Towers, 6th Floor,  
ABC Place  
Waiyaki Way  
P. O. Box 40034-00100  
NAIROBI

## BANKERS

Citibank NA  
Standard Chartered Bank Kenya Limited  
Barclays Bank of Kenya Limited

## SECRETARY AND REGISTERED OFFICE

Ms. R.T. Ngobi (CPS No. 726)  
Company Secretary  
Kitui Road, Industrial Area  
P. O. Box 18010-00500  
NAIROBI

# STRATEGIC REPORTS

## ABOUT US

BOC Kenya Limited (BOC) is a leading supplier of industrial, medical and special gases in Kenya, Tanzania and Uganda. The Company was incorporated in Kenya in 1940 and listed on the Nairobi Securities Exchange in 1969. Established in 1886 in Britain, the BOC organisation has been producing industrial gases for more than 120 years.

BOC is a member of The Linde Group, a world leading gases and engineering company with approximately 64,500 employees working in more than 100 countries worldwide.

The Company's portfolio includes dozens of different gases and mixtures, as well as related equipment and services. The Company's customer base cuts across a large spectrum and includes public and private hospitals, food processors, civil and mechanical engineering contractors, motor vehicle body builders, hotels and restaurants, the informal business sector ("Jua Kali") and small and medium enterprises.

Our product range includes:

- Bulk gases (liquid oxygen and liquid nitrogen).  
BOC boasts of the only Air Separation Unit (ASU) in Kenya capable of producing liquid gases with purity levels of 99.95%. We provide gas solutions in high pressure cryogenic vessels, tailored for specific applications.
- Packaged (cylinder) gases.  
These comprise the Company's primary product line and include medical gases, industrial gases, special gas mixtures and liquefied petroleum gas.
- Engineering services (supply of medical equipment, construction of medical and other gas pipelines, LPG installations - tanks and pipelines, industrial gas storage and pipeline installations and related maintenance services).

BOC has a team of highly qualified engineers and technicians who provide Customer Engineering Services (CES) to the highest international standards including the following: Medical Oxygen KS 2170-1:2009, Medical Air KS 2170:2008, Medical Nitrous Oxide KS 2170-3:2008 and Medical Carbon Dioxide KS-2170-4:2009.

Safety at BOC is non-negotiable. We pay great attention to the safety of operations, products, distribution fleet and our customers.

We conduct rigorous tests on our cylinders before any filling operation to ensure safety of products and users. Medical cylinders are subjected to more stringent tests and cleaning in line with health care standards.

All staff receive regular general safety and role specific training. Employees have access to the web-based Linde Group Learning Management System (TRACCESS) on which they study and undertake tests on subjects relevant for their respective roles in the Company.

The company's distribution fleet drivers are continuously trained in vehicle safety, including heavy commercial vehicle anti-rollover training in South Africa.

Completion of core training is mandatory before an employee is allowed to execute particular tasks.

The Company has maintained its ISO 9001:2008, ISO 14000:2004 and OHSAS 18000:2007 certification.



## VISION AND VALUES

Our vision gives us direction, articulates what we want to achieve and focuses our energy on reaching our aspiration.

Our values and principles express what we stand for and what will differentiate us from our competitors. They are well embedded in our organisation and resonate in everything we do, no matter which part of the business or geography we are in.

Our values are:

- Empowering people: People are given the space to contribute and grow.
- Innovating for customer: We relentlessly pursue new ways to add value to external customers.
- Thriving through diversity: Being a global organization, diversity results in enriched collaboration and enhanced solutions.
- Passion to excel: We have the commitment and drive to pursue ever higher standards of excellence and we celebrate success.

## STRATEGY

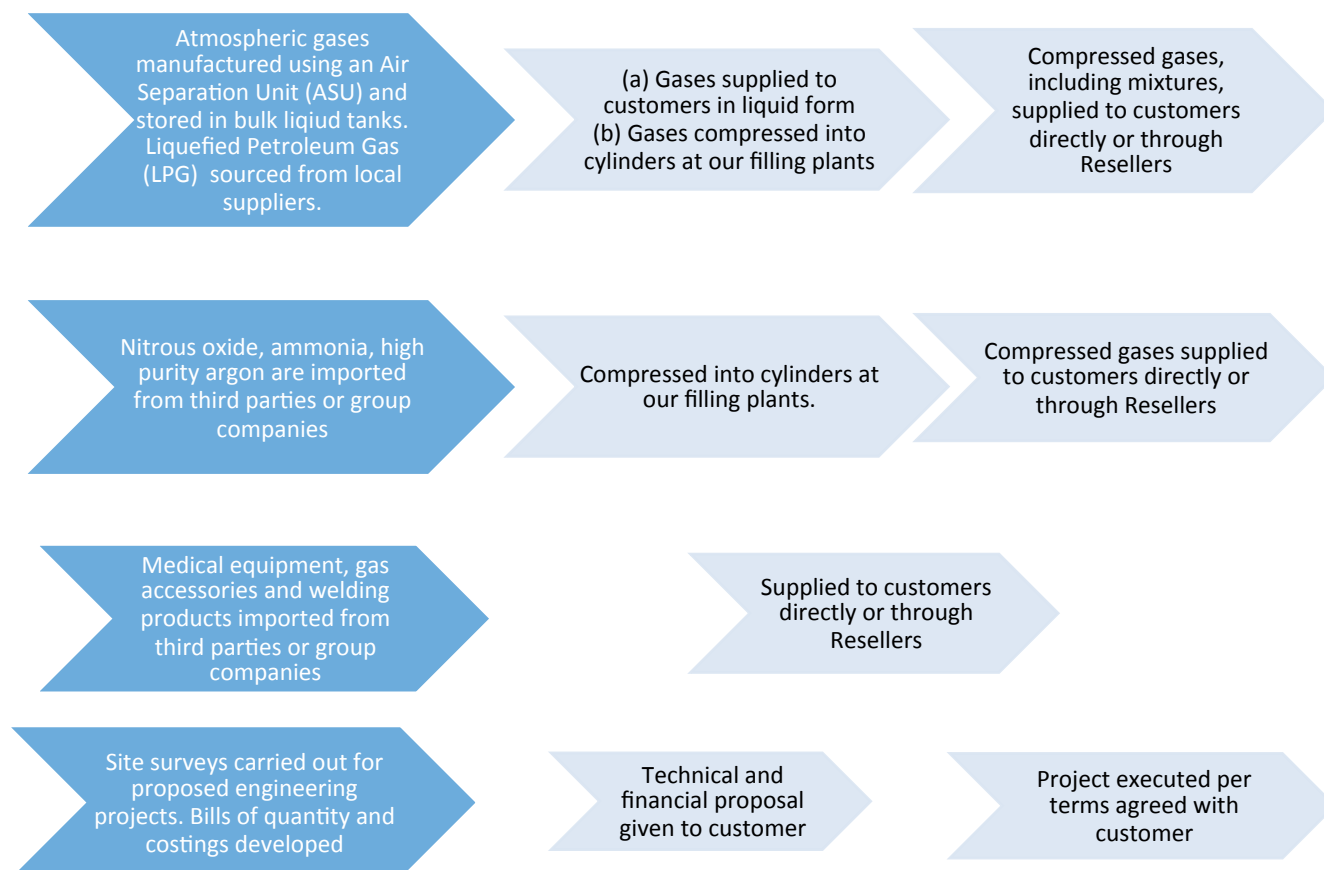
The strategy of the Company is geared towards long-term profitable growth and focuses on the provision of forward-looking products and services that support our customers in their various areas of operations.

The Company acts responsibly towards its shareholders, business partners, employees, society and the environment in every one of its business areas and locations.

In line with the Linde Group vision we seek to be the leading gases and engineering Company in our region, admired for its people, who provide innovative solutions that make a difference in the World.

## BUSINESS MODEL

The Company's business model may be summarised as follows:



## CHAIRMAN'S STATEMENT

The Directors are pleased to submit the annual financial statements of BOC Kenya Limited and its subsidiaries for the year ended 31 December, 2016. The financial results are discussed in the Managing Directors report.

### Business environment

Though the Company faced a difficult operating environment during the year, it remains in a financially sound debt-free position. Business challenges emanated from low cost competitors in a sector with minimal regulatory oversight, illegal filling of the Company's cylinders by other parties, lack of enforcement of standards for medical oxygen, competition from imported liquid oxygen and slow and delayed settlement of trade debt by many public sector customers.

The Board and Management are acutely aware of these difficult operating conditions and are putting in place mitigation measures including a widening of the Company's non-gas product range. This is being done while ensuring internal efficiency and adequate resourcing to meet customer expectations. The Company will endeavour to maintain its acknowledged reputation for integrity, product quality and safety standards.

### Macro-economic environment

The Board is optimistic that the Eastern Africa region will maintain the growth trajectory of recent years and Governments in the region will continue to support private sector growth through investments in physical infrastructure, efficiency and modernisation of public institutions that provide critical services to businesses and the citizenry as well as an improved regulatory / legal environment. These will enable the Country and the region to maintain current investments as well as attract new investments, including small and medium enterprises which are a key component of the business sector.

The macro-economic environment remained relatively stable during the year but noteworthy was a substantial decline in the interest rates during the month of September 2016 to 14% compared 16.75% a year earlier, following the amendment of the Banking Act in August 2016 to cap the lending rates at a maximum of 4.0 per cent above the Central Bank Rate (CBR). Should the reduced cost of borrowing lead to credit expansion as the Government expects, the capping of rates will have the desired effect, which should be beneficial to business.

Economic growth remained stable - according to the Kenya National Bureau of Statistics, Kenya's economy is estimated to have expanded by 5.9% in the first three quarters of 2016 compared to 5.6% in 2015 and 5.3% in 2014. During the year, inflation was mostly contained at the Government's short term target of 5% ± 2.5%, closing at 6.35% in December 2016. However, the rate has subsequently risen to 9.04% in February 2017 due to increased food prices and rising costs of fuel and electricity.

### Appreciation

Since the last Annual General Meeting on 22 June, 2016, there has been two changes on the Board of Directors:

- Nazmi Adams, who was a senior executive in the Linde Group, resigned from the Board in 2016 following his retirement from the Group. We thank him for his service to the Company.
- Andy Gouws, also a senior executive in the Linde Group, was appointed on 1 November, 2016 to fill a casual vacancy on the Board and will be offering himself for re-election at the 2017 AGM. Please join me in welcoming Andy to The Board.

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. I also wish to thank our shareholders for their continued support.

We shall continue to make the necessary investments in order to maintain the high operational and safety standards and product quality, which have held us in good stead with our customers who trust our brands – to them we remain grateful.

I would also like to thank our suppliers and resellers for their continued support. The Board is committed to ensuring our business partnerships remain mutually beneficial.

N. Kiuna

30 March, 2017

“  
**The Board is optimistic that the Eastern Africa region will maintain the growth trajectory of recent years...**  
 ”



**N. KIUNA**  
*Chairman*



## MANAGING DIRECTOR'S REPORT

### Principles

We remain committed to our foundational principles of safety, integrity, sustainability and respect.

### Safety, Health & Environment Quality (SHEQ)

SHEQ principles are reflected in 100% of our behaviour. We ensure that our operations and products cause no harm to our employees, customers and the communities in which we operate.

### Integrity

All our staff are expected to live up to universally accepted moral and ethical principles. We continue to uphold and expect honesty and fairness from one another and in our dealings with customers, suppliers and other stakeholders.

### Sustainability

We are focused on today's success, but accept our responsibility for future generations. We treat our people and the environment with respect.

We believe in creating long-term relationships with our stakeholders. Our success is linked to turning business challenges into positive outcomes for our customers and the community.

### Respect

We treat each other with courtesy and dignity regardless of seniority, age, gender, ethnicity, religion or any other difference. We behave in accordance with the detail and spirit of the Universal Declaration of Human rights of the United Nations.

### Customer focus

Customers are the reason we exist. We are constantly seeking ways to innovate to retain existing customers and gain a foothold in new markets and customer segments. We offer excellent services to internal customers so they can provide better service for external customers.

### Outlook

We expect the East African countries to continue registering positive growth as they have done over the past years.

While the landscape is expected to continue being very competitive and the playing field not necessarily even, the Management is taking various steps to arrest the decline in turnover. These include reviewing our route-to-market in all the three East Africa countries that we operate in, increasing our product range outside of industrial and medical gases, greater focus on customer engineering services, upskilling employees so that we can continue to meet and exceed the expectations of our customers and constantly seeking out cost saving that will not be detrimental to the business. Effort will also be made to improve the control of our cylinders once they are in the market place to forestall illegal filling.



**MILLICENT ONYONYI**  
*Managing Director*

## Managing Director's Report - *continued*

### Key performance indicators

	2012	2013	2014	2015	2016	CAGR <sup>1</sup> , CHANGE OR TOTAL
Revenue	1,294,550	1,242,602	1,296,679	1,186,420	1,076,719	-4.5%
Gross profit	54.7%	51.9%	48.5%	49.2%	51.5%	-3.2
Distribution costs	132,134	112,275	112,012	101,093	102,617	-5.7%
Selling & Admin costs	345,981	310,406	318,986	325,199	319,428	-2.0%
Operating Profit	230,652	231,833	200,850	160,175	132,368	-13.0%
Operating Profit / Sales	17.8%	18.7%	15.5%	13.5%	12.3%	-5.5
Quick Assets <sup>2</sup>	601,781	676,166	623,940	710,661	689,118	2.6%
Quick Ratio	1.2	1.2	1.1	1.2	1.3	
Liquidity Ratio	2.1	2.2	2.1	2.1	2.3	
Debt to Equity Ratio	0.37	0.27	0.32	0.35	0.31	
Long term debt	Nil	Nil	Nil	Nil	Nil	
Dividends	98,604	101,532	101,532	101,532	101,532	504,733
Dividend per share (Kshs)	5.05	5.20	5.20	5.20	5.20	25.85
Capital expenditure	36,332	56,429	127,863	110,032	85,017	415,673
Return on total assets	9.9%	7.7%	10.0%	6.4%	5.9%	

1. CAGR = Compound Annual Growth Rate

2. Quick assets comprise bank balances, term deposits and treasury bills. Trade debt is excluded.

\* All figures in Kenya shilling thousands (KShs 000) unless indicated otherwise

Revenue over the five year period has declined at annual average rate of 4.5% primarily due to price rationalisation in an increasingly competitive market. This has resulted in an erosion of gross profit and net earnings. However, the price drops have now generally bottomed-out but cost recovery through price increases is expected to continue being a challenge.

Distribution costs and selling and administration expenses have declined notwithstanding inflationary pressures as a result of cost containment initiatives.

The Company continues to have a cash healthy position with quick assets (cash and cash equivalents, bank deposits and investments in treasury bills) of KShs 689 Million 31 December, 2016. Current assets have remained at more than twice current liabilities.

During the four financial years from 2011 to 2015, the Company declared and paid dividends amounting to 51.8% of net earnings.

An asset renewal programme has been in place for the last several

years with a capital spend of KShs 416 Million in the last five years.

The decrease in net earnings has led to a decline in the return on assets from 9.9% in 2012 to 5.9% in 2016. The Board is currently reviewing the Group's operations and business process in order to reverse this negative trend on assets utilisation.

### Appreciation

Finally I wish to thank our customers for their continuing custom and trust in our products and services, our employees for their individual and collective contribution to the business over the years, members of the Board of Directors for their invaluable guidance and our shareholders who have placed their investment in our hands. We will continue to strive towards greater achievements in 2017 and in the coming years.

Millicent Onyonyi  
**30 March, 2017**

## SUSTAINABILITY REPORT - SAFETY, HEALTH, ENVIRONMENT, QUALITY AND SECURITY

The Company operates a management system for safety and environmental protection based on guidelines and standards which apply worldwide. The company focuses on minimising safety risks and reducing its environmental impact as well as on ensuring efficient use of energy, resources and materials. Our products and technologies also support customers' efforts to make their business processes safer, more efficient and more environmentally friendly.

The Company is audited by both external bodies and Linde Group auditors to verify compliance with the prescribed standards. In order to identify areas of weakness, we record incidents which have particular relevance for safety and environmental protection. In addition, near misses from which we can learn lessons are documented. To ensure that it is prepared for events such as natural disasters, serious crime and pandemics, the company also draws up risk management plans. Our top priority is the protection of employees, business partners, neighbours and property. The company cooperates with the authorities in the areas surrounding its business locations on safety and environmental protection. People are the most important assets we have in the BOC system. We believe everyone possesses a fundamental human right to safety and it is our duty to respect and foster that right. Hence we take measurable steps to continuously improve safety practices across the organisation.

We have set ourselves ambitious goals for occupational and process safety, quality, environmental sustainability as well as health protection. We stipulate globally mandatory standards for safety, security and health protection. A worldwide network of experts support us in their implementation. Tried-and-true processes and solutions are documented and made globally available through networks and structured exchange. We regularly conduct audits on safety, security, health and environmental protection in order to monitor progress towards our goals. Risk-conscious working behaviour is promoted for every individual through measures like systematic hazard assessments, specific qualification measures and safety initiatives rolled out periodically. Based on our corporate values, leaders serve as safety role models for our employees. Together, they contribute to the constant development of our safety culture.

In 2016, 3.76 work-related accidents per one million working hours was reported at our sites in Kenya (2015: 0), raising the rate of lost work day cases. A total of 12 minor incidents in 2016 were reported as compared to 15 minor incidents in 2015 with no major incident reported from 2012. Our SHEQ team is performing a comprehensive analysis of the incidents and using the findings to derive appropriate measures to prevent the incidences from happening with a goal of zero incidents in focus.

Safety, Health, Environment, Quality and Security remain our priorities for the years to come based on the company values. We will endeavour to ensure our staff, customers, contractors, visitors and property are well protected.

We will continue to equip our staff with the required training and ensure continued certification and transition of the International Standards from the 2008 versions to ISO 9001:2015 (Quality Management system standard), ISO 14001:2015 (Environmental Management system standard) and OHSAS 18001:2007 (Occupational Health and Safety Assessment Series).





# GOVERNANCE

## BOARD OF DIRECTORS AND DIRECTORS' PROFILES



**Mr. Ngugi Kiuna (age 68)**  
 Non-Executive Chairman  
 Kenyan

**Position:** Chairman since May 2012; Non-Executive Director since October 1993; and Chairman of the Nominations and Corporate Governance Committee.

**Skills and experience:** Mr. Kiuna is an engineer by profession. He is currently the Managing Director of Maxam Limited, the distributor of Heineken and Philip Morris across East Africa. His professional experience has involved working as a Managing Director of Holman Bros East Africa and as Managing Director of Diversey Eastern and Central Africa Limited until July 2006. He graduated with a BSc (Hons) degree in mechanical engineering from Portsmouth Polytechnic, England.

Ngugi has served on various boards of listed and non-listed companies in the past, amongst them, Access Kenya Limited and Kenya Power and Lighting Company Limited.

**Key Appointments:** He is currently a Non-Executive Director of Proctor & Allan (EA) Limited, XRX Technologies and Cooper K-Brands Limited.



**Mrs. Millicent Onyonyi (age 50)**  
 Managing Director  
 Kenyan

**Position:** Appointed as Managing Director in April 2016.

**Skills and experience:** Millicent is an accomplished Senior Executive possessing 24 years of local and international experience, predominantly in the oil industry. Prior to joining BOC she worked in various management positions in ExxonMobil Limited and most recently, she held the position of Corporate Retail Coordinator Libya Oil Africa, responsible for coordinating retail activities in 18 countries across Africa. Millicent holds a Bachelor of Commerce (Honours) Degree (Business Administration and Marketing) from Nairobi University.

**Key Appointments:** Millicent is a Non-Executive Director of Kenya National Trading Corporation Limited.



**Mr. Arthur Kamau**  
(age 51)  
*Finance Director*  
*Kenyan*

**Position:** Appointed Finance Director in December 2010.

**Skills and experience:** He has extensive experience in financial management and served in various senior management roles over the last eleven years in the manufacturing industry including Finance Director for Diversey Eastern and Central Africa Limited. Arthur is a graduate of Economics and Business Studies from the Kenyatta University. He trained as an accountant with KPMG Kenya.

**Key Appointments:** Arthur does not hold any other directorships. He is a member of the Institute of Certified Public Accountants of Kenya.

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**Mr. Robert N. Mbugua**  
(age 49)  
*Independent Non-Executive*  
*Director*  
*Kenyan*

**Position:** Appointed to the Board in May 2012. He is the Chairman of the Audit Committee and a Member of the Nominations and Corporate Governance Committee.

**Skills and experience:** Robert is the Co-Founder and Chief Executive of Fleet Africa (EA) Limited. This is the East Africa subsidiary of JSE Listed Super Group. He has a rich accounting background having spent 14 years with PricewaterhouseCoopers both in Kenya and in South Africa where he was admitted as a Partner. He left PricewaterhouseCoopers South Africa and joined Standard Bank South Africa for 8 years. During his tenure with Standard Bank South Africa he held various Senior roles including Regional Managing Director with responsibility for its operations in a number of African countries. He is a Certified Public Accountant and holder of a Master of Business Administration degree from Bond University (Australia/South Africa).

**Key Appointments:** He holds directorships in Fleet Africa (EA) Limited and Nabo Capital Limited.

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**Mr. Marius Kruger (age 47)**  
*Non-Executive Director*  
*South African*

**Position:** Appointed to the Board in August 2013. He is a Member of the Audit Committee and the Nominations and Corporate Governance Committee.

**Skills and experience:** Marius is based at African Oxygen Limited, BOC's sister Company in South Africa, and is the General Manager responsible for East Africa. He brings to the Board a wealth of experience gained over twenty five years in general management, financial audits and advisory services, business planning, financial and management reporting, strategy formulation, implementation and reviews. Marius holds a post graduate degree in Finance.

**Key Appointments:** Marius holds directorships in BOC Zimbabwe Limited, Afrox Mozambique Lda and Les Gaz Industriels Limited in Mauritius. He is an associate member of the Chartered Institute of Management Accountants in the United Kingdom.

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**Mrs. Lucy Njoroge (age 50)**  
*Independent Non-Executive*  
*Director*  
*Kenyan*

**Position:** Appointed to the Board in September 2014. She is the Chairman of the Retirements and Remuneration Committee and a Member of the Audit Committee.

**Skills and experience:** Lucy is a Founder member and Managing Director of XR Technology Limited, a company that specializes in office automation and ICT integration services. As a professional in IT, Mrs. Njoroge has spearheaded many major IT projects in Kenya and the Region for Government institutions and large public and private companies. She holds a Bachelor of Education degree from Moi University, Eldoret and a Masters in Business Administration from United States International University, Nairobi.

**Key Appointments:** Lucy does not hold any other directorships.

## Board of Directors and Directors' Profiles - *continued*



**Mrs. Cosima Wetende**  
 (age 42)  
 Independent Non-Executive  
 Director  
 Kenyan

**Position:** Appointed to the Board in March 2016. She is a Member of the Audit Committee and the Retirements and Remuneration Committee.

**Skills and experience:** Cosima is an Advocate of the High Court of Kenya of 13 years standing and is currently a Partner in the firm of Kaplan & Stratton Advocates. She practices mainly in areas relating to civil and commercial litigation, arbitration and mediation.

She holds a Bachelor of Law and Master of Law degrees from the University of Nairobi in addition to a Bachelor of Arts (Hons) Degree in Social Sciences.

**Key Appointments:** Cosima does not hold any other directorships. She is a Member of the Law Society of Kenya, the International Bar Association and a Fellow of the Chartered Institute of Arbitrators (Kenya Branch).



**Mr. Andy Gouws** (age 61)  
 Non-Executive Director  
 South African

**Position:** Appointed to the Board in November 2016. He is a Member of the Retirements and Remuneration Committee.

**Skills and experience:** Andy is a qualified Aeronautical Engineer by profession. He holds a Bachelor's Degree in Mechanical Engineering, an MSc in Chemical Engineering as well as a MBA from Henley Management College. He currently holds the position of Commercial and Business Development Manager at African Oxygen Limited, a company within the Linde Group. He has regional responsibility for sales, marketing and new business development across a number of African countries.

**Key Appointments:** Andy is a Non-Executive Director and Chairman of Afrox Malawi. He is a member of the South African Institute of Mechanical Engineers.



**Ms. R. T. Ngobi** (age 56)  
 Company Secretary  
 Kenyan

**Position:** Company Secretary since August 2002.

**Skills and Experience:** Ms. Ngobi was educated in both Kenya and the UK and qualified as a lawyer in 1985. She previously worked with Unilever Kenya Limited for 15 years as Company Secretary before joining British American Tobacco Kenya Ltd in 2002 as Company Secretary and Area Legal Counsel. She retired from full time employment with British American Tobacco Kenya Ltd in 2010 but retained her role as Company Secretary. She founded Cosec Solutions which provides company secretarial services and corporate governance solutions to various companies.

**Key Appointments:** She is a Non-Executive Director on the Boards of Stanbic Bank Limited, Stanbic Holdings Limited and SBG Securities Limited.

## MANAGEMENT TEAM

The Company's Management team comprises the Managing Director (see page 14) and the Finance Director (see page 15) together with:



**James Njoroge**  
*Operations Manager*

James is in charge of the Company's production and cylinder filling facilities as well as other physical infrastructure. Key production facilities comprise the Air Separation Unit (ASU), Dissolved Acetylene Plant and the LPG Filling Plant.

He is also in charge of the Customer Engineering Service (CES) Department, which works closely with the Sales and Marketing Department to deliver engineering projects to customers. These include the installation of cryogenic gas tanks, onsite gas generators and construction of medical gases and liquefied petroleum gas pipelines.

Having joined the business in 1994 immediately after graduating from the University of Nairobi with a Mechanical Engineering degree, James has gained invaluable experience on BOC's and Linde Group processes and standards, all of which are built on a bedrock of safety.



**Brian Simiyu**  
*Business Development Manager*

Brian is in charge of the Business Development in Kenya, Uganda and Tanzania since November 2016. Prior to his current role, he was in charge of Sales and Marketing since joining the company in October 2013.

He holds a Masters of Business Administration (MBA) in Strategic Management from Strathmore Business School and a Bachelors' Degree in Mechanical Engineering from JKUAT. He has over eighteen years' experience in industrial/commercial sales and marketing as well as engineering and technical support from the oil industry. While at Linde, he has received training in Modified Gas Applications.



**Patrick Riungu**  
*Sales Manager*

Patrick is in charge of the sales and customer service functions in Kenya, Uganda and Tanzania. He joined the Company in September 2016 coming from the oil industry.

A graduate of University of Nairobi, Bachelor's degree (1st class honours) in Mechanical Engineering, he brings a wealth of sales and marketing expertise to BOC. He has over fifteen years' experience in retail service station sales, industrial and wholesale selling, lubricant sales, technical training, engineering support, design & branding, Information Technology and administration.

**Management Team - *continued***

**Catherine Njuguna**  
*Supply Chain Distribution Manager (Acting)*

Catherine is responsible for the Company's supply chain, distribution functions. The scope of her role includes demand planning, inventory control, warehousing, distribution, cylinders as well as fleet management.

She joined the business in 1999 in the Finance department as a graduate from Kenyatta University with a first class Honours degree in Commerce, and is also a member of ICPAK (Instituted of Certified Public Accountants of Kenya). She has over ten years' experience in financial management having served in various roles within BOC. She also served as Management Accountant for a year prior to her appointment to the position of Supply Chain Manager in May 2013 and the recent appointment in March 2017 to the current position.



**Sarah Onyoni**  
*Human Resource Manager*

Sarah joined the company in November 2008. She has extensive experience gained in the health care and manufacturing sectors. She is responsible for talent acquisition and retention management, compensation and benefits, communicating and enforcing company values, promoting process improvement, talent development, succession planning and management of change.

Prior to joining the company she held similar roles at the International Livestock Research Institute, Aga Khan University Hospital and Unga Group. She holds a Bachelors' degree in Economics and a Masters' degree in Personnel Management. She is an alumni of Symbiosis Institute of Business Management and is a Member of the Institute of Human Resources Management.



**Vandick Kwena**  
*SHEQ Manager*

Safety, Health, Environment & Quality (SHEQ) is managed at the functional level by line managers, supervisors and employees with Vandick maintaining oversight and ensuring accountability at the corporate level. He ensures the SHEQ policies and guidelines are implemented at country level with incorporation of risk assessment plans, driving the sustenance of International standards certification whilst ensuring the organisation complies to all Health, Safety and Environment legislation to which it subscribes to.

Prior to joining the Company in 2012, Vandick held different operations, safety and consultancy roles at Oil Libya, Everett Aviation, Bureau Veritas and Cosmos Pharmaceuticals Limited with a work experience spanning over 10 years.

Vandick holds a Masters of Business Administration (MBA) in Strategic Management, a Bachelors' Degree in Chemical Engineering, a Diploma in Environmental Science and a NEBOSH certification in oil and gas operational safety. He is a registered engineer with Engineers Board of Kenya (EBK), America Institute of Chemical Engineers (AIChE) and Society of Biological Engineers (SBE).

## DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December, 2016 in accordance with the Kenyan Companies Act, 2015, which disclose the state of affairs of BOC Kenya Limited and its subsidiaries (the 'Group' and 'Company').

### 1. Principal activities

The principal activity of the Group is the manufacture and sale of industrial gases, medical gases and welding products.

### 2. Results

2016 was a challenging year for the Group. Turnover decreased by 9.2% due to a one off sale of hospital equipment in the preceding year, sales lost earlier in 2016 when the Air Separation Unit (ASU) was shut to repair gas leaks on the production line as well as loss of volumes to low cost producers. The Company's ASU produces oxygen at a 99.9% purity level, which, together with our investments in stringent quality and safety processes, has an impact on production costs.

The drop in revenue resulted in the decline of net profit for the year from KShs 148.6 Million in 2015 to KShs 126.3 Million in 2016.

Actions being taken by Management to arrest the decline in turnover include a review of our route-to-market in the three East African countries that we operate in, increasing our product range, greater focus on customer engineering services and ensuring that the business continually meets and exceeds the expectations of its customers.

Subject to approval at the Annual General Meeting the Directors propose to maintain the dividend at the prior years' level since, though lower, the 2016 net profit is sufficient to fund the dividend and the Company continues to be in a strong cash position (see next paragraph).

### 3. Dividend

During the year, an interim dividend of KShs 2.20 was paid (2015: KShs 2.20).

The Directors recommend the approval of a final dividend of KShs 3.00 per ordinary share, payable, net of withholding tax, on or about the 13 July, 2017, to shareholders on the Register at the close of business on 13 May, 2017.

The total dividend for the year is therefore KShs 5.20 per share (2015: KShs 5.20) amounting to a total of KShs 101,532,320 (2015: KShs 101,532,320).

### 4. Board of Directors

The Directors who served during the year and up to the date of this report are set out on page 5.

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

- Mr. N. Adams resigned from the Board on 31 August 2016.
- Mr. A. Gouws was appointed a Director on 1 November 2016 to fill a casual vacancy on the Board.

In accordance with Article 98, Mr. Gouws retires from the Board and being eligible, offers himself for re-election.

Mr. R. Mbugua and Mrs. L. Njoroge retire by rotation and being eligible, offer themselves for re-election in accordance with Article 93 of the Articles of Association.

### 5. Board Audit and Risk Committee

In accordance with the provisions of Section 769 of the Kenyan Companies Act 2015, the Directors recommend that, Mr. R. Mbugua, Mr. M. Kruger, Mrs. L. Njoroge and Mrs. C. Wetende, being members of the Board's Audit Committee, be elected to continue to serve as members of the said Committee.

### 6. Auditors

The auditor's, KPMG Kenya, continue in office by virtue of Section 721(2) of the Kenyan Companies Act, 2015.

### 7. Relevant Audit Information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### 8. Approval of financial statements

The financial statements were approved by the Board of Directors on 30 March, 2017.

### By order of the Board

R.T. Ngobi (Ms.)  
Company Secretary

**30 March, 2017**

## LEADERSHIP AND RESPONSIBILITIES

### Overview

BOC Kenya Limited (BOC) is committed to the highest standards of corporate governance and has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended 31 December, 2016 and to the date of this Annual Report, the Company endeavoured to comply with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code). The Company however believes that the most potent form of corporate governance comes from within, with external guides and codes being overlays to the standards that we, as a Group, set ourselves. Those standards are codified in our own Code of Ethics which every company within the Linde Group and every employee is expected to live up to.

### The Role of the Board

The Board is comprised of six (6) Non-Executive Directors including the Chairman and two (2) Executive Directors. Its' principal duty is to create and deliver sustainable shareholder value through setting the Company's strategy and overseeing its implementation. In so doing, due regard is paid to matters that will affect the future of BOC, such as the effect the Board's decisions may have on employees, the environment, surrounding communities and relationships with suppliers.

The Board ensures that Management achieves the right balance between promoting long-term growth and delivering short-term objectives. The existing corporate governance framework embeds

the right culture, values and behaviours throughout the Group and supports the Boards role in determining strategic objectives and policies.

In addition to setting strategy and overseeing its implementation, the Board is also responsible for ensuring that Management maintains an effective system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The key responsibilities of the Board include:

- To provide overall strategic direction and major corporate actions to be taken by the Company;
- Approval and adoption of the strategic and annual business plans, the setting of objectives and review of key risk and performance areas;
- To review performance, take material policy decisions and give guidance on general policy.
- Approval of commitments outside the authority delegated to the executive management, committees and individual directors;
- Responsibility for the overall system of internal control for the Company thereby managing risks that may impede the achievement of the Company's business objectives;
- Review, at regular Board meetings, of Management's performance against set objectives; and
- Approval of adoption of Group policies, programmes and procedures for safety, health, environment, quality, treasury, remuneration and benefits.



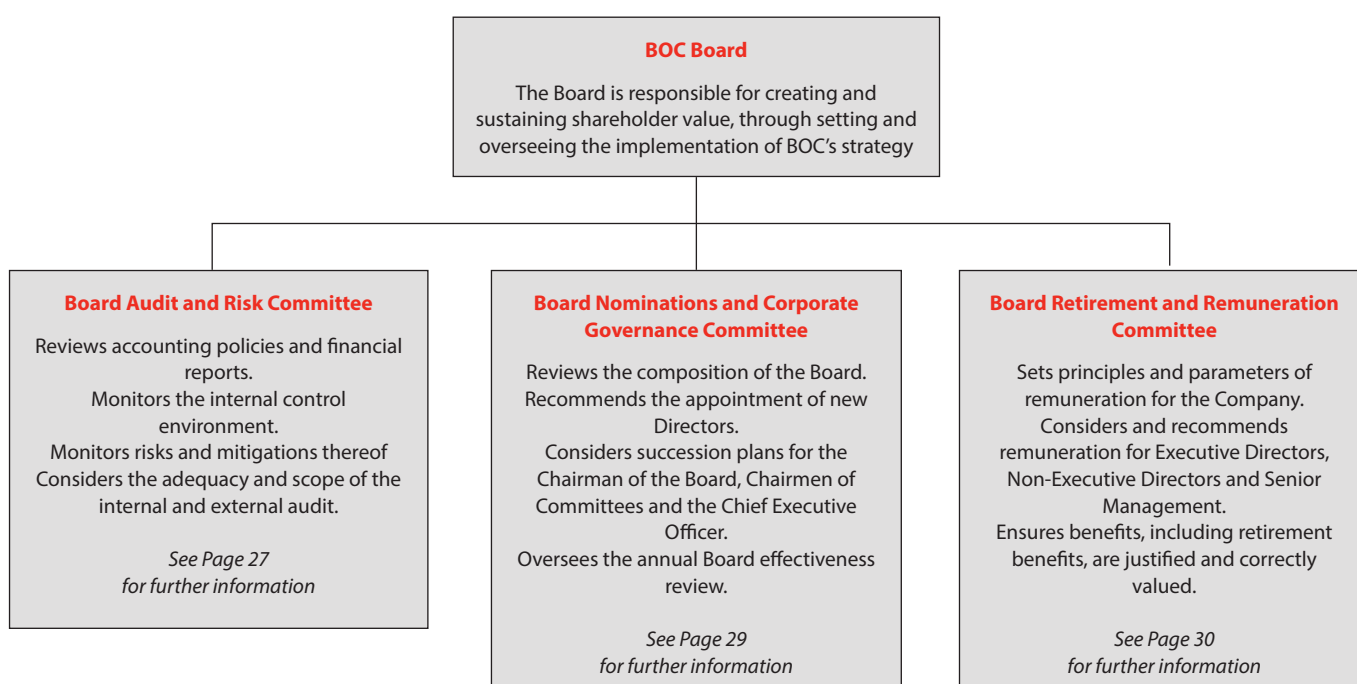
## Leadership and responsibilities - *continued*

### Board Governance framework

The Board has established three principal Board Committees namely, the Risk and Audit Committee, the Nominations and Corporate Governance Committee, and the Retirement and Remunerations Committee.

Under the authority of the Company's Articles of Association, each Board Committee has specific responsibilities delegated to it by the Board. Each Committee has its own terms of reference which are reviewed annually and updated as appropriate.

The roles, membership and activities of these Committees are described in more detail later in this Report.



Responsibility for implementing strategy and day-to-day operations has been delegated by the Board to the Managing Director and her Executive team.

### Division of Responsibilities

The roles and responsibilities of the Chairman and the Managing Director are separate with each having clearly defined duties and responsibilities. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness and for facilitating the productive contribution of both Executive and Non-Executive Directors. He sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. He is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. The Chairman is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.

The Managing Director is responsible for the day-to-day management of the Company and is also responsible for the performance of the Group and is supported in this role by the Executive team. She provides leadership to enable successful planning and execution of the objectives and strategies agreed by the Board. She is also responsible for stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

### Non-Executive Directors

The Board had six (6) Non-Executive Directors as at 31 December, 2016 and as at the date of this Report. The role of the Non-Executive Director is to help develop strategy, review management proposals, scrutinise performance of Management, to bring an external perspective to the Board, monitor reporting of performance and to be available to meet with shareholders and key stakeholders as appropriate.

## Leadership and responsibilities - *continued*

### The Executive Team

The Executive team led by the Managing Director is responsible for overseeing the implementation of the strategy and policies set by the Board, and for creating the framework for their successful day-to-day operation. Their profiles are set out on page 17 and 18 of this Annual Report.

Principle Executive Team roles includes:

- Developing strategy for approval by the Board;
- Developing guidelines for the Company's functions;
- Ensuring functional strategies are effective and aligned;
- Managing functions;
- Reviewing functional budgets;
- Monitoring Company operating performance; and
- Overseeing the management and development of talent.

### Attendance

Members of the Board are expected to attend each Board meeting. In 2016, Members attended Board meetings and the Annual General Meeting as disclosed in the table below. If, owing to exceptional circumstances a Director was not able to attend a Board meeting, they ensured that their views were made known to the Chairman in advance of the meeting.

#### Attendance at Board meetings and Annual General meeting in 2016

Name	Meetings Attended	Meetings Eligible to Attend
Mr. N. Kiuna (Chairman)	5	5
Mrs. M. Onyonyi (Managing Director)	5	5
Mr. A. Kamau (Finance Director)	5	5
Mr. R. Mbugua	5	5
Mr. M. Kruger	5	5
Mrs. L. Njoroge	5	5
Mrs. C. Wetende	5	5
Mr. N. Adams <sup>1</sup>	3	4
Mr. A. Gouws <sup>2</sup>	1	1

1. Mr. N. Adams resigned from the Board effective 31 August 2016

2. Mr. A. Gouws was appointed to the Board effective 1 November 2016

## Leadership and responsibilities - *continued*

### Board Effectiveness

#### **Composition of the Board of Directors**

In line with the requirements of the Code, a majority of the Board are Non-Executive Directors, with Independent Non-Executive Directors making up one third of the total number of Directors.

The Board currently comprises the Chairman, who is Non-Executive, two Executive Directors and five Non-Executive Directors. As at the date of this Annual Report, the composition of the Board is as set out on Page 5. The Independence of the Non-Executive Directors is considered annually by the Board Nominations and Corporate Governance Committee using the independence criteria set out in the Code.

The Board Nominations and Corporate Governance Committee also considers Board succession planning and regularly reviews the composition of the Board and the Board Committees to ensure that there is an appropriate balance and diversity of skills, experience, independence and knowledge. The size of the Board is not fixed and may be revised from time to time to reflect the changing needs of the business and the Board Nominations and Corporate Governance Committee considers the balance of skills and experience of current Directors when considering a proposed appointment. The Board's Diversity Policy can be read on the Company's website ([www.boc.co.ke](http://www.boc.co.ke)).

The Directors biographies containing their relevant skills and experience, Board Committee membership and other principal appointments can be found on pages 14 to 16. Details of changes to the Board in 2016 and year to date are disclosed in the Directors Report on page 19.

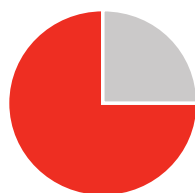
The service contracts for the Executive Directors and the letters of appointment for the Chairman and Non-Executive Directors are available for inspection, upon Notice, at the Company's registered office.

**Gender Balance**



■ Male ■ Female

**Execs / Non-Execs**



■ Exec ■ Non-Execs



## Leadership and responsibilities - *continued*

### **Board Evaluation**

The Board conducts a critical evaluation of its effectiveness and that of its Committees, the Executive and Non-Executive Directors, Chairman, the Managing Director and the Company Secretary.

The evaluation is conducted by each Director completing a Board Effectiveness Evaluation Form. This information is thereafter collated by the Company Secretary and presented to the Nominations and Corporate Governance Committee with a view to identifying and recommending areas for improvement. The findings from the Board Evaluation exercise are subsequently presented to the full Board and recommendations for improvement discussed and if thought fit, approved.

The evaluation for 2015 was conducted in 2016. Whilst the Board and each of its Committees were considered to be effective, opportunities for improvement were identified and action points identified for implementation.

All Board members were considered to have performed well and each was considered to be making an effective contribution to the Board. Individual feedback was given to all Board members by the Chairman. Feedback on the Chairman's own performance was given to him by the Nominations and Corporate Governance Committee.

### **Re-election**

The Non-Executive Directors do not have service contracts with the Company but instead have Letters of Appointment for three years; subsequent reappointment is subject to endorsement by the Board.

In accordance with the Articles of Association of the Company, all Directors offer themselves for re-election at regular intervals. At this year's AGM, on 21 June 2017, the Company will submit all eligible Directors to re-election and, in the case of Mr. A. Gouws, election for the first time following his appointment to the Board on 1 November 2016.

### **Time commitment**

It is expected that in order to discharge their responsibilities effectively all Directors allocate sufficient time to their roles on the Board. Directors are expected to attend, and to be well prepared for, all Board and Board Committee meetings, as well as making time to understand the business, meet with executives and regulators as appropriate, and complete ongoing training. The Chairman and other Non-Executive Directors endeavour to ensure that they have adequate time to discharge their responsibilities to the Board effectively.

### **Induction**

On appointment to the Board, all Directors receive induction which is tailored to the new Director's individual requirements. The induction schedule is designed to quickly provide the new Director with an understanding of how the BOC Group works and the key issues that it faces. On completion of the induction programme the Director should have sufficient knowledge and understanding of the nature

of the business, and the opportunities and challenges facing BOC to enable them to effectively contribute to strategic discussions and oversight of the Group.

In 2016, Mrs. M. Onyonyi (as incoming Managing Director), Mrs. C. Wetende and Mr. A. Gouws, all received induction programmes on joining the Board. In line with normal practice, they met with the Company Secretary, the current Non-Executive Directors and members of Executive Team. Factory tours were also arranged for insight into the Company's operations and production capabilities.

### **Training and development**

In order to continue to contribute effectively to Board and Board Committee meetings, Directors are encouraged to continually update their skills and knowledge of the business. The Directors are also provided with the opportunity to take part in training and development. As part of the annual one-on-one performance review with the Chairman, any particular development needs that can be met through either formal training or meeting with a relevant member of the Executive Team, are discussed.

The Company Secretary organises a training schedule for the year which includes both formal training and function or topic specific briefings which is approved by the Board.

During 2016, the Directors underwent training on the key tenets of the new Kenyan Companies Act, 2015 and the Code.

### **Conflict of Interest**

Any conflict of interest or apparent conflict of interest between the Company and its Directors is avoided. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the BOC Group. Any circumstances which may give rise to actual or potential conflicts of interest are disclosed to the Board upon appointment and subsequent changes highlighted as they arise. Directors are given the opportunity, at the start of every Board meeting, to declare any actual or potential conflict of interest with their role as Directors. During the course of 2016, no conflict of interest was declared by any Director.

### **Financial and Business Reporting**

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position through the Annual Report. It is appropriate to treat this business as a going concern, as there is sufficient existing financing available to meet expected requirements in the foreseeable future. The Audit Committee is assigned to review financial, audit and internal control issues in supporting the Board of Directors which is responsible for the financial statements and all information in the Annual Report.

### **Risk Management and Internal Control**

The Board is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its

## Leadership and responsibilities - *continued*



strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit Committee, the Board carries out a review of the effectiveness of its risk management and internal control systems covering all material controls including financial, operational and compliance controls and risk management systems.

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 system controls.

The Linde Group's 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 is reviewed to ensure timely implementation of corrective actions.

### Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chairman, Executive Directors, Non-Executive Directors, other Senior executives and certain Group employees to the Board Retirement

and Remuneration Committee. The Board as a whole considers recommendations from the Board Retirement and Remuneration Committee on the fees to be paid to Non-Executive Directors. Information on the activities of the Board Retirement and Remuneration Committee in 2016 can be found on pages 30 to 31 and the Directors Remuneration Report which forms part of the corporate governance statement is on pages 32 and 33.

### Communication with Stakeholders

The Board is committed to ensuring that shareholders, regulators and the financial markets are provided with full and timely information about its performance. This is achieved through the release of its half-year and annual results in the local press, distribution of annual reports, and holding investor briefings, as appropriate.

The Board and the Executive Team continue to consider the AGM as a key date in the diary. The AGM provides a useful opportunity to the Board to engage with shareholders on key issues facing the Group and any questions they may have. The Chairman, all Directors and Executive Team members were available at the 2016 AGM for informal discussions with shareholders, either before or after the meeting. All resolutions which were proposed at the 2016 AGM were passed unanimously. Concerns raised by shareholders during question time were considered and discussed by the Board at its subsequent meeting held in August 2016.

The 2017 AGM will be held on 21 June, 2017 at the Company's Head Office, Kitui Road, Industrial Area. The Notice of the AGM is on page 2 of this Report.

### Directors Loans

There were no loans made to Directors at any time during the year.

## Leadership and responsibilities - *continued*

### Strategic Board Activities in 2016

During 2016, the Board focused on a number of specific areas, outlined below, in line with its strategic goals:

- Considering Managing Director and Non-Executive Director appointments proposed by the Board Nominations and Corporate Governance Committee, appointing a Managing Director and two Non-Executive Directors and reviewing the composition of Board Committees;
- Reviewing and agreeing a re-articulation of the Company's strategy;
- Endorsing the direction and activities proposed by Management to achieve the strategy and ensuring that Management was on track to deliver the Company's strategy;
- Discussing and improving the Board's understanding of key risks facing the Company and considering the potential impact on the business of specific risk factors in consultation with the Board Audit Committee;
- Keeping the Company's trading and performance under review. Monitoring operational key performance indicators;
- Keeping the competitive landscape under review;
- Reviewing operations of the subsidiary companies, BOC Tanzania Limited and BOC Uganda Limited;
- Reviewing Limits of Authority;
- Monitoring Safety, Health, Environment and Quality (SHEQ) incidents;
- Exploring savings and productivity opportunities;
- Disposal of non-core assets;
- Monitoring the status of the Company's litigation proceedings;
- Monitoring compliance with the Companies Act 2015 and the new Code;
- Monitoring compliance with the Company's Code of Ethics;
- Reviewing succession planning at Board Level including Executive Directors and the Executive Team;
- Reviewing headcount and the establishment;
- Reviewing the talent pipeline;
- Reviewing results of The Linde Employee Survey;
- Consideration of Director 2017 Training Plans;
- Reviewing shareholder concerns raised at the AGM held on 22 June 2016;
- Reviewing 2017 Budget.

## BOARD COMMITTEES

The Board has established three principal Board Committees, to which it has delegated some of its responsibilities namely, the Audit and Risk Committee, the Nominations and Corporate Governance Committee and the Retirement and Remuneration Committee.

### Audit and Risk Committee

#### Current Members

Mr. R. Mbugua (Chairman)  
Mr. M. Kruger  
Mrs. L. Njoroge  
Mrs. C. Wetende  
Ms. R.T. Ngobi (Secretary)

#### Attendance at meetings in 2016

Name	Meetings Attended	Meetings Eligible to Attend
Mr. R. Mbugua	3	3
Mr. M. Kruger	3	3
Mrs. L. Njoroge	3	3
Mrs. C. Wetende <sup>1</sup>	0	0
Mrs. M. Onyonyi <sup>2</sup>	3	3
Mr. A. Kamau <sup>2</sup>	3	3

1. Mrs. C. Wetende was appointed a Member of the Committee in November 2016.

2. Mrs. M. Onyonyi and Mr. A. Kamau attended as Permanent Invitees.

#### Mandate and Role of the Audit and Risk Committee

The Board Audit and Risk Committee assists the Board of Directors in carrying out its responsibilities with respect to the management of business risks and internal controls and the conduct of business in accordance with the Code of Ethics.

The Committee is comprised of three Independent Non-Executive Directors and one Non-Executive Director. The Committee met three times during 2016. Attendance included internal and external auditors, as well as permanent invitees from Management.

The Committee's responsibilities include:

- Review of accounting policies and the contents of financial reports and in particular the integrity of the half-year and annual financial statements before submission to the full Board for review and approval;
- Ensuring integrity of financial reporting and internal and external audit processes;
- Considering the adequacy and scope of the external and internal audit;
- 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 released to stakeholders;
- Recommending to the Board, the selection and appointment of the Group's external auditors and review of proposed audit fees;
- 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; and
- Oversees the relationship with the external auditors.

## Board Committees - *continued*

### **Key Audit and Risk Committee activities in 2016**

The Board Audit Committee's agenda in 2016 continued to include its responsibilities for overseeing the performance and effectiveness of internal and external audit. The Committee also continued to exercise its responsibilities for ensuring the integrity of BOC's published financial information by debating and challenging the judgements made by Management and the assumptions upon which they are based.

Matters considered by the Committee during 2016 included the following:

- The Company's 2016 half year financial results and the full year audited results, including the external auditor's report;
- Internal control recommendations arising from the external audit process;
- Progress on 2016 Internal Audit Plan;
- Updates on both local and regional audits, the management responses and plans being put in place to address any concerns raised;
- Updates on key risks facing the business and mitigating steps put in place;
- Quarterly reports on security risks, frauds and losses;
- Updates on significant legal cases;
- Reports on compliance with the Company's Code of Ethics;
- Changes to 2016 year-end Audit Report to meet requirements of the revised ISA's;
- 2016 External Auditor's Audit plan;
- Annual review of external auditors' independence; and
- 2017 Internal Audit Plan.

### **External Auditors**

The Board Audit and Risk Committee oversees the effectiveness of BOC's external auditors. KPMG Kenya are the Company's external auditors. The Audit Committee considers that the relationship with the auditors worked well during the period and remains satisfied with their effectiveness. The external auditors are required to rotate the audit partners responsible for the audit at least every seven years.

### **Auditor Independence**

The Committee has an established policy aimed at safeguarding and supporting the independence and objectivity of the Company's external auditors, which is regularly reviewed and updated. The basic principle of the policy is that the Company's external auditors may be engaged to provide additional services only in cases where those services do not impair their independence and objectivity. KPMG reconfirms its independence on an annual basis.

### **Whistle Blowing and Staff Helpline - The Linde Group Integrity Line**

BOC is a member of the Linde Group, a global company that has set high standards for its operations around the world. The Linde Code of Ethics and the standards set in the Code are a good example of this. They determine how Linde will maintain its relationships with governments, businesses, the environment and people. These standards also provide clear guidance on how we are expected to act

in certain circumstances and will ensure that Linde's good reputation will be maintained and enhanced.

The Linde Group has implemented the Linde Integrity Line to provide additional means by which reports can be made in respect of potential irregularities in the fields of accounting, internal accounting controls, auditing matters, bribery, banking and financial crime. The Integrity Line can be accessed via email, post, the Integrity Line Reverse Charge telephone line or by fax, details of which are all available on the Group's intranet for employees. It can also be assessed by any third party from the Compliance section of The Linde Group Website, <http://www.the-linde-group.com>.

The Integrity Line enables BOC staff to raise concerns in confidence and to report incidents they consider to be against the Company's established code of conduct without fear of reprisal.

A report to the Integrity line is forwarded via secured e-mail to the Linde Integrity Committee which is assisted by the Linde Compliance Facilitator. This Committee consists of up to four members formed of representatives of the following Group divisions: Group Internal Audit; Group Legal; Group Corporate Responsibility; and Group HR. It has been set up with a view towards further safeguarding the integrity of the processing of reports. The Committee will oversee the processes, including the review of reports and determinations on further process.

Reports will be forwarded to the appropriate local level for further review and inquiries. Where the contents of a report require further processing on a central level, the report will continue to be processed under the authority of the Linde Integrity Committee.

The Committee receives periodic reports on whistleblowing incidents, if any, from the Regional Internal Audit.

The Audit Committee remains satisfied that the Company's policy and procedures enable proportionate and independent investigation of matters raised and ensures that appropriate follow-up action is taken.

## Board Committees - *continued*

### Nominations and Corporate Governance Committee

#### Current Members

Mr. N. Kiuna (Chairman)  
Mr. R. Mbugua  
Mr. M. Kruger  
Ms. R. T. Ngobi (Secretary)

#### Attendance at meetings in 2016

Name	Meetings Attended	Meetings Eligible to Attend
Mr. N. Kiuna	3	3
Mr. R. Mbugua	3	3
Mr. M. Kruger	3	3
Mrs. M. Onyonyi <sup>1</sup>	3	3

<sup>1</sup> Mrs. M. Onyonyi attended as a Permanent Invitee.

#### Mandate and Role of the Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee is responsible for identifying candidates to fill vacancies on the Board and has oversight on the adherence and compliance by the Company to its Code of Ethics and to the principles and requirements of good corporate governance. The process of identification of candidates to fill vacancies to the Board includes an evaluation of the skills and experience sought by the Board prior to recruitment. Suitable candidates are interviewed by the Committee and its Chairman and recommended to the Board for appointment.

The Nominations and Corporate Governance Committee is also charged with the responsibility of evaluating the effectiveness of the Board and its Committees and the effectiveness of the Directors in the discharge of their responsibilities.

#### Key Nominations and Corporate Governance Committee activities in 2016

During 2016, the Committee focused on a number of specific areas, outlined below, in line with its terms of reference:

- The recruitment of Mrs. M. Onyonyi as Managing Director 1 April 2016 following the resignation of Mrs. M. Msisk;
- The appointments of Mrs. C. Wetende and Mr. A. Gouws on 1 March 2016 and 1 November 2016 respectively. The appointments took into consideration Board succession planning, skill gaps to be closed within the Board, diversity considerations and gender balance;
- Reviewing succession planning for the Executive Directors and the Executive Team;
- Reviewing the new Code of Corporate Governance practices for Issuers of Securities to the Public 2015 on behalf of the Board and monitoring compliance with and implementation of the same;
- Review of the key tenets of the Kenyan Companies Act, 2015 on behalf of the Board and assessing compliance with the same; and
- Reviewing the effectiveness of the Board and its Committee's following the Board Evaluation exercise and making recommendations to the Board on actions to be adopted towards improvement.

## Board Committees - *continued*

### Retirement and Remuneration Committee

#### Current Members

Mrs. L. Njoroge (Chairman)  
 Mrs. C. Wetende  
 Mr. A. Gouws  
 Ms. R.T. Ngobi (Secretary)

#### Attendance at meetings in 2016

Name	Meetings Attended	Meetings Eligible to Attend
Mrs. L. Njoroge	3	3
Mrs. C. Wetende <sup>1</sup>	3	3
Mr. N. Adams <sup>2</sup>	1	2
Mr. A. Gouws <sup>3</sup>	1	1
Mrs. M. Onyonyi <sup>4</sup>	3	3
Mr. A. Kamau <sup>4</sup>	3	3

1. Mrs. C. Wetende was appointed a Member from 1 March 2016
2. Mr. N. Adams resigned from the Board effective 31 August 2016
3. Mr. A. Gouws was appointed a Member from 1 November 2016
4. Mrs. M. Onyonyi and Mr. A. Kamau attended as Permanent Invitees.

#### Mandate and Role of the Retirement and Remuneration Committee

The Retirement and Remuneration Committee determines and makes recommendations to the Board on the remuneration policies of the Company, and the terms and conditions of employment of the Executive Directors and Senior Management. The Committee ensures that compensation for all employees is performance-driven and appropriately benchmarked against other companies in Kenya.

The Committee is responsible for setting executive remuneration covering salary and benefits, performance related bonus arrangements, pensions and terms of service, monitoring and advising the Board on major changes to the policy on employee benefit structures for the Company.

Remuneration of Non-Executive Directors is also reviewed by the Committee to ensure that the levels of remuneration and compensation are appropriate. Information on aggregate amount of emoluments and fees paid to directors is disclosed in Note 32 (e) in the financial statements. The Directors Remuneration Report is on page 32 of this Report.

All members of the Committee are Non-Executive Directors.

#### Key Retirement and Remuneration Committee activities in 2016

During 2016, the Committee focused on a number of specific areas, outlined below, in line with its terms of reference:

- Reviewing the application and continuing impact of the Remuneration Policy during 2016;
- Reviewing succession planning of Executive Directors and the Executive Team and the talent pipeline;
- Reviewing results of The Linde Employee Survey;
- Reviewing the development of leaders in the Company and in particular activities to embed a high-performance leadership culture;
- Making recommendations on annual salary increments for approval by the Board;
- Reviewing Non-Executive remuneration and making recommendations to the Board for approval; and
- Review of the performance of the Companies two provident funds.

## Board Committees - *continued*

### 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. 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 also ensures that manpower plans are implemented timeously.

### Code of Ethics

Inextricably linked to good corporate governance is the company's Code of Ethics. The Linde Group has always espoused the highest ethical standards of business conduct and full compliance with applicable laws, regulations and industry standards.

The Company believes in open and honest communication, fair treatment and equal opportunities and supports the fundamental principles of human rights.

While common sense, good judgement and conscience apply in managing a difficult or uncertain situation, the Code of Ethics assists in detailing the standards and priorities within The Linde Group, as well as specific rules covering human rights, safety at work and environmental and supply management. Guiding principles or core values within the Code define our responsibilities towards and what we expect from directors, employees, local communities and the public, customers, suppliers and markets and Shareholders.

Allegiance to the Code of Ethics is the starting point from which employees draw inspiration and guidance for behaviour within a group, society or the organisation. An integrity line has been established to enable employees to report contraventions of the Code of Ethics.

**“**  
**The Company believes in open and honest communication, fair treatment and equal opportunities and supports the fundamental principles of human rights.**  
**”**

# DIRECTORS' REMUNERATION REPORT

The Directors Remuneration Report sets out the policy that has been applied by the Company to remunerate Executive and Non-Executive Directors. The Report has been prepared in accordance with the relevant provisions of both the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code) on Directors remuneration and the Kenyan Companies Act, 2015.

## **Principles of remuneration policy**

The Retirement and Remuneration Committee considers the remuneration policy annually to ensure that it remains aligned to business needs and is appropriately positioned relative to the market. Its overriding objective is to reward the delivery of the Company's strategy in a manner that is simple, straightforward and understandable.

## **Executive Directors**

The Executive Directors remuneration package comprises core fixed elements (base salary, pension and other benefits) designed to recognize the skills and experience of the Executive Directors and to ensure current and future market competitiveness in attracting talent. Executive Directors are eligible to participate in the Company's bonus scheme which is anchored on achievement of key business performance indicators.

## **Non-Executive Directors**

The Company looks to recruit, as Non-Executive Directors, those who have a wide range of strategic and operational experience gained from other businesses or organizations. A Non-Executive Director is required, as a minimum, to make an annual time commitment of about 20 days and is expected to attend all Board and Committee meetings, the AGM, a strategic budgeting session as well as maintaining an appropriate level of knowledge about the business and its operations.

As a Listed Company, the quantum and structure of Non-Executive Directors' remuneration will primarily be assessed against the same remuneration comparator group of companies used for setting the remuneration for Executive Directors.

Non-Executive Directors' earn fees that comprise an annual basic retainer fee payable monthly and board/committee sitting allowance per meeting

The Company ensures that the fees for Non-Executive Directors are sufficient to attract, motivate and retain individuals with skills and senior-level experience to drive the Company's strategy forward. The fees for the Non-Executive Directors are reviewed annually although the review does not always result in an increase in the Board fees. The Board as a whole considers the policy and structure for the Non-Executive Directors' fees on the recommendation of the Retirement and Remuneration Committee.

Directors are entitled to a reimbursement of travel and related expenses in accordance with the Company's human resource policies.

Fees for Non-Executive Directors based out of the country - who are all presently representatives of the main shareholder, BOC Holdings UK, and are senior management staff at African Oxygen Limited (Afrox) - are paid to Afrox. Their travel costs and related expenses incurred as Directors of the Company in respect of attendance at Board, Committee and General meetings are met by the Company.

Executive Directors do not earn fees or sitting allowances.

## **Insurance**

The Company provides Directors' and Officers' Liability Insurance for all Directors of the Company during the entire duration of their tenure.

## **Shareholding requirements**

The remuneration of Non-Executive Directors is paid in cash. There are no formal requirements for the Non-Executive Directors to hold shares in the Company. However, Non-Executive Directors are encouraged to acquire a small interest during the initial years after their date of appointment. The Non-Executive Directors do not participate in BOC Group bonus schemes and are not members of any Company pension plan.

## Directors' Remuneration Report - *continued*

### Terms of appointment and termination

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment which are available for inspection at the Company's registered office upon Notice.

On termination, at any time, a Non-Executive Director is entitled to any accrued but unpaid Director's fees but not to any other compensation.

### Remuneration in 2016

The remuneration of directors in 2016 is set out below.

	Group		Company	
	2016	2015	2016	2015
	KShs'000		KShs'000	KShs'000
Fees and sitting allowances	6,916	5,454	6,295	4,695
Salaries and short term benefits	38,214	34,318	38,214	34,318
Provident fund contributions	3,068	3,432	3,068	3,432
<b>Total</b>	<b><u>48,198</u></b>	<b><u>43,204</u></b>	<b><u>47,577</u></b>	<b><u>42,445</u></b>

### By order of the Board

R.T. Ngobi (Ms.)  
Company Secretary  
Date: 30 March, 2017

# SHAREHOLDING STRUCTURE AS AT 30 MARCH 2017

## Major shareholders

Shareholder Name	Total Shares	Percentage Shareholding
BOC Holdings	12,765,582	65.4%
Standard Chartered Kenya Nominees Ltd A/C Ke002670	1,046,600	5.4%
Ngugi Kiuna	990,420	5.1%
Standard Chartered Kenya Nominees Ltd A/C Ke20510	486,986	2.2%
Best Investment Decisions Ltd	276,500	1.3%
Standard Chartered Kenya Nominees Ltd A/C Ke002012	231,356	1.2%
Standard Chartered Kenya Nominees Ltd A/C Ke001966	169,000	1.0%
Kanaiyalal Mansukhlal Shah & Lalitaben Kanaiyalal Shah	150,073	0.9%
Allied Storage Limited	111,579	0.6%
Mrs. Carolyn Anne Gray Rosso	110,143	0.6%
Total for top ten shareholders	16,338,239	83.7%
Other Shareholders	3,187,207	16.3%
Total for all shareholders	19,525,446	100.0%

## Domicile analysis

Domicile	Shares	%	Holders
Foreign Companies	14,699,627	75.3%	7
Foreign Individuals	360,464	1.8%	27
Local Companies	875,622	4.5%	82
Local Individuals	3,589,733	18.4%	778
Total	19,525,446	100.0%	894

## Number of Shares

Number of Shares	Shares	%	Holders
1 - 500	81,822	0.4%	392
501 - 5,000	699,942	3.6%	372
5,001 - 10,000	399,045	2.0%	53
10,001 - 100,000	1,906,117	9.8%	66
100,001 - 1,000,000	2,626,338	13.5%	9
>1,000,000	13,812,182	70.7%	2
Totals	19,525,446	100.0%	894

## Directors' shareholding

Shareholder Name	Total Shares	Percentage Shareholding
Ngugi Kiuna	990,420	5.1%
Lucy M. Njoroge	79,000	0.004%

## STATEMENT OF **DIRECTORS RESPONSIBILITIES**

The Directors are responsible for the preparation and fair presentation of the Group and Company financial statements of BOC Kenya Limited set out on pages 40 to 95 which comprise the Group and Company statements of financial position at 31 December, 2016, the Group and Company statements of profit or loss and other comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

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, 2015 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, 2015 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 Group and Company as at the end of the financial year and of the operating results of the Group and Company for that year. It also requires the Directors to ensure the Group and Company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Group and 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, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and operating results of the Group and Company.

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 ability of the Company and its subsidiaries to continue as a going concern and have no reason to believe that the business 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 30 March 2017 and were signed on its behalf by:

**Ngugi Kiuna**  
**Chairman**  
**30 March, 2017**

**Millicent Onyonyi**  
**Managing Director**  
**30 March, 2017**

# REPORT OF THE **INDEPENDENT AUDITORS TO THE MEMBERS OF BOC KENYA LIMITED**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the Group and Company financial statements of BOC Kenya Limited set out on pages 40 to 95, which comprise the Group and Company statements of financial position as at 31 December, 2016, the Group and Company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the Consolidated and Separate financial position of BOC Kenya Limited as at 31 December, 2016, and its Consolidated and Separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Company financial statements of the current period. These matters were addressed in the context of our audit of the Group and Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Report of The Independent Auditors to the Members of BOC Kenya Limited - *continued*

### Report on the Audit of the Financial Statements - *continued*

#### Key audit matters - *continued*

<b>Impairment of trade receivables</b>	
<b>See Note 3 (l) on the Group's and Company's accounting policy on valuation of trade receivables and Note 21.</b>	
<b>The key audit matter</b>	<b>How the matter was addressed</b>
<p>Trade receivables constitute more than 10% of total assets of the Group and Company. The profile of the customers who constitute the trade receivables balance varies in character and risk. Amounts due from customers may be outstanding for long periods of time before being received by the Group and Company thus, potentially exposing the Group and Company to impairment losses.</p> <p>Impairment of trade receivables is considered a key audit matter because the directors make subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— assessing the appropriateness of the accounting policy and whether it had been applied correctly;</li> <li>— testing, on a sample basis, the controls over credit monitoring;</li> <li>— testing the ageing of trade receivables and recomputing the trade receivables provision on the basis of the accounting policy; and</li> <li>— reviewing a sample of receivables for the settlement of trade receivables balances outstanding as at 31 December 2016 for post year end receipts.</li> </ul>
<b>Valuation of inventory</b>	
<b>See Note 3 (i) on the Group's and Company's accounting policy on valuation of inventory and Note 20.</b>	
<b>The key audit matter</b>	<b>How the matter was addressed</b>
<p>The Group and Company holds a significant amount of inventory which comprises finished goods, items for the processing of gases and spare parts. Inventory may be held for long periods of time before utilisation making it vulnerable to obsolescence.</p> <p>Valuation of inventory is considered a key audit matter because the assessment and application of inventory provisions are subject to significant judgment, made by the directors.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— assessing the appropriateness of the accounting policy and whether it had been applied correctly;</li> <li>— attending the inventory count at the year end and observed if there were any obsolete or slow moving items;</li> <li>— assessing the ageing of inventory and recomputed the inventory provision on the basis of the accounting policy; and</li> <li>— testing a sample of stock items to ensure that they were held at the lower of cost and net realisable value, and evaluating management judgment with regards to the application of provisions for inventory obsolescence.</li> </ul>

## Report of The Independent Auditors to the Members of BOC Kenya Limited - *continued*

### Report on the Audit of the Financial Statements - *continued*

#### Key Audit Matters - *continued*

Provisions for tax liabilities	
See Note 4 (a) (ii) on the Group's and Company's critical accounting estimates and judgments on taxes and note 29 on contingent liabilities.	
The key audit matter	How the matter was addressed
<p>The Group and Company is subject to tax reviews and claims made by the relevant tax regulatory authorities within the jurisdictions in which it operates.</p> <p>Management applies significant judgment when considering whether, and how much, to provide for the potential exposures arising from each claim.</p> <p>Provision for tax liabilities is considered a key audit matter because of the magnitude of the potential exposures across the Group, and the complexity and judgment necessary to determine whether to provide for, disclose or not disclose certain exposures.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— discussing with management and the Group's tax advisors the nature of ongoing claims and reviews, and to validate the latest status of the claims to assess the consequent accounting and disclosure implications;</li> <li>— reviewing formal confirmations with the tax authorities and from the Group's external tax advisors relating to significant tax reviews and claims in order to ensure completeness of provisioning and disclosure;</li> <li>— assessing relevant historical information and recent trends by tax authorities in the jurisdictions in which the Group operates. Further, reviewing the Group's tax advisors' opinion to ascertain the basis used for the provisions recorded or disclosures made by Directors; and</li> <li>— where provisions are not required, considering the adequacy and completeness of the Group's disclosures made in relation to contingent liabilities.</li> </ul>

#### Other information

The Directors are responsible for the other information. The other information comprises the information included in the *Annual report and financial statements*, but does not include the financial statements and our auditor's opinion thereon.

Our opinion on the Group and Company financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the Group and Company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Directors for the Financial Statements

As stated on page 35, the Directors are responsible for the preparation of the Group and Company financial statements that give a true and fair view in accordance with IFRSs, and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group and Company financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

## Report of The Independent Auditors to the Members of BOC Kenya Limited - *continued*

### Report on the Audit of the Financial Statements - *continued*

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group and Company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the

financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on Other Legal and Regulatory requirements

As required by the Kenyan Companies, Act, 2015 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 purposes of our audit;
- ii. in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii. the statement of financial position of the Company is in agreement with the books of account.

*The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Joseph Kariuki – P/2102.*

KPMG Kenya

**Date: 30 March, 2017**

# FINANCIAL STATEMENTS

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<b>Revenue</b>	7	1,076,719	1,186,420	1,010,649	1,085,224
Cost of sales	8 (b)	(524,047)	(603,181)	(515,252)	(558,062)
<b>Gross profit</b>		<b>552,672</b>	<b>583,239</b>	<b>495,397</b>	<b>527,162</b>
Other income	8 (a)	1,741	3,228	1,623	1,978
Distribution costs	8 (b)	(102,617)	(101,093)	(98,183)	(96,403)
Selling and administrative expenses	8 (b)	(319,428)	(325,199)	(267,623)	(273,012)
<b>Operating profit</b>		<b>132,368</b>	<b>160,175</b>	<b>131,214</b>	<b>159,725</b>
Finance income	9 (a)	71,863	74,343	63,930	65,237
Finance costs	9 (b)	(13,549)	(12,797)	(760)	(3,473)
<b>Profit before tax</b>	10	<b>190,682</b>	<b>221,721</b>	<b>194,384</b>	<b>221,489</b>
Tax expense	11	(64,359)	(73,121)	(59,914)	(67,829)
<b>Profit for the year</b>		<b>126,323</b>	<b>148,600</b>	<b>134,470</b>	<b>153,660</b>
<b>Other comprehensive income</b>					
<i>Items that will never be reclassified to profit or loss</i>		-	-	-	-
<i>Items that are or may be reclassified to profit or loss:</i>					
Translation differences arising from foreign operations		(6,872)	(13,783)	-	-
Change in fair value of available-for-sale financial assets		(42,366)	(79,717)	(42,366)	(79,717)
Deferred tax on available-for-sale financial assets		(210)	13,350	(210)	13,350
<b>Total other comprehensive income for the year net of tax</b>		<b>(49,448)</b>	<b>(80,150)</b>	<b>(42,576)</b>	<b>(66,367)</b>
<b>Total comprehensive income for the year</b>		<b>76,875</b>	<b>68,450</b>	<b>91,894</b>	<b>87,293</b>
<b>Earnings per share (KShs per share)</b>					
- Basic and diluted	12	6.47	7.61	6.89	7.87

The notes set out on pages 47 to 95 form an integral part of these financial statements.

**Financial Statements - continued**

**STATEMENTS OF FINANCIAL POSITION**

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	14	773,122	761,795	709,545	699,095
Intangible assets	15	697	670	631	524
Investments in subsidiaries	16	-	-	60	60
Available-for-sale financial assets	17	210,070	262,236	210,070	262,236
Deferred tax asset	18	27,528	40,605	22,442	33,315
Prepaid operating leases	19	3,293	3,398	3,293	3,398
<b>Total non-current assets</b>		<u>1,014,710</u>	<u>1,068,704</u>	<u>946,041</u>	<u>998,628</u>
<b>Current assets</b>					
Inventories	20	141,969	161,428	127,553	154,473
Available-for-sale financial assets	17	511,637	278,438	511,637	278,438
Trade and other receivables	21	320,284	359,601	364,159	416,500
Tax recoverable	22	49,221	20,562	39,662	14,048
Term deposits	23	106,064	31,655	-	-
Cash and cash equivalents	24	71,417	400,568	34,896	245,915
<b>Total current assets</b>		<u>1,200,592</u>	<u>1,252,252</u>	<u>1,077,907</u>	<u>1,109,374</u>
<b>TOTAL ASSETS</b>		<u><b>2,215,302</b></u>	<u><b>2,320,956</b></u>	<u><b>2,023,948</b></u>	<u><b>2,108,002</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	25(a)	97,627	97,627	97,627	97,627
Share premium	25(b)	2,554	2,554	2,554	2,554
Other reserves	26	141,771	191,219	173,514	216,090
Retained earnings		1,447,497	1,422,706	1,276,510	1,243,572
<b>Total equity</b>		<u><b>1,689,449</b></u>	<u><b>1,714,106</b></u>	<u><b>1,550,205</b></u>	<u><b>1,559,843</b></u>
<b>Current liabilities</b>					
Trade and other payables	27	525,853	606,850	473,743	548,159
<b>Total current liabilities</b>		<u>525,853</u>	<u>606,850</u>	<u>473,743</u>	<u>548,159</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>2,215,302</b></u>	<u><b>2,320,956</b></u>	<u><b>2,023,948</b></u>	<u><b>2,108,002</b></u>

The financial statements on pages 40 to 95 were approved for issue by the Board of Directors on 30 March, 2017 and signed on its behalf by:

**Ngugi Kiuna**  
Chairman

**Millicent Onyonyi**  
Managing Director

The notes set out on pages 47 to 95 form an integral part of these financial statements.

## Financial Statements - continued

### STATEMENT OF CHANGES IN EQUITY OF THE GROUP

<b>Year ended 31 December, 2016</b>	<b>Share capital</b> KShs'000	<b>Share premium</b> KShs'000	<b>Fair value reserve</b> KShs'000	<b>Foreign currency translation reserve</b> KShs'000	<b>Retained earnings</b> KShs'000	<b>Total equity</b> KShs'000
Balance at 1 January 2016	97,627	2,554	216,090	(24,871)	1,422,706	1,714,106
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	126,323	126,323
<b>Other comprehensive income, net of tax</b>						
Foreign currency translation differences	-	-	-	(6,872)	-	(6,872)
Change in available-for-sale financial assets	-	-	(42,366)	-	-	(42,366)
Deferred tax on available for sale financial assets	-	-	210	-	-	210
<b>Total other comprehensive income</b>	-	-	(42,576)	(6,872)	-	(49,448)
<b>Total comprehensive income for the year</b>	-	-	(42,576)	(6,872)	126,323	76,875
<b>Transactions with owners, recognised directly in equity</b>						
Dividends to equity holders						
- Final for 2015 paid	-	-	-	-	(58,576)	(58,576)
- Interim for 2016 paid	-	-	-	-	(42,956)	(42,956)
<b>Balance at 31 December 2016</b>	<b><u>97,627</u></b>	<b><u>2,554</u></b>	<b><u>173,514</u></b>	<b><u>(31,743)</u></b>	<b><u>1,447,497</u></b>	<b><u>1,689,449</u></b>

The notes set out on pages 47 to 95 form an integral part of these financial statements.

**Financial Statements - continued**

**STATEMENT OF CHANGES IN EQUITY OF THE GROUP**

<b>Year ended 31 December, 2015</b>	<b>Share capital KShs'000</b>	<b>Share premium KShs'000</b>	<b>Fair value reserve KShs'000</b>	<b>Foreign currency translation reserve KShs'000</b>	<b>Retained earnings KShs'000</b>	<b>Total equity KShs'000</b>
Balance at 1 January, 2015	97,627	2,554	282,457	(11,088)	1,375,638	1,747,188
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	148,600	148,600
<b>Other comprehensive income, net of tax</b>						
Foreign currency translation differences	-	-	-	(13,783)	-	(13,783)
Change in available-for-sale financial assets	-	-	(79,717)	-	-	(79,717)
Deferred tax on available for sale financial assets	-	-	13,350	-	-	13,350
<b>Total other comprehensive income</b>	-	-	(66,367)	(13,783)	-	(80,150)
<b>Total comprehensive income for the year</b>	-	-	(66,367)	(13,783)	148,600	68,450
<b>Transactions with owners, recognised directly in equity</b>						
Dividends to equity holders						
- Final for 2014 paid	-	-	-	-	(58,576)	(58,576)
- Interim for 2015 paid	-	-	-	-	(42,956)	(42,956)
<b>Balance at 31 December, 2015</b>	<b><u>97,627</u></b>	<b><u>2,554</u></b>	<b><u>216,090</u></b>	<b><u>(24,871)</u></b>	<b><u>1,422,706</u></b>	<b><u>1,714,106</u></b>

The notes set out on pages 47 to 95 form an integral part of these financial statements.

## Financial Statements - *continued*

### STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

<b>Year ended 31 December, 2016</b>	<b>Share capital KShs'000</b>	<b>Share premium KShs'000</b>	<b>Fair value reserve KShs'000</b>	<b>Retained earnings KShs'000</b>	<b>Total equity KShs'000</b>
Balance at 1 January, 2016	97,627	2,554	216,090	1,243,572	1,559,843
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	134,470	134,470
<b>Other comprehensive income, net of tax</b>					
Change in available- for-sale financial assets	-	-	(42,366)	-	(42,366)
Deferred tax on available for sale assets	-	-	210	-	210
<b>Total other comprehensive income</b>	-	-	(42,576)	-	(42,576)
<b>Total comprehensive income for the year</b>	-	-	(42,576)	134,470	91,894
<b>Transactions with owners, recognised directly in equity</b>					
Dividends:					
- Final for 2015 paid	-	-	-	(58,576)	(58,576)
- Interim for 2016 paid	-	-	-	(42,956)	(42,956)
<b>Balance at 31 December, 2016</b>	<b><u>97,627</u></b>	<b><u>2,554</u></b>	<b><u>173,514</u></b>	<b><u>1,276,510</u></b>	<b><u>1,550,205</u></b>

The notes set out on pages 47 to 95 form an integral part of these financial statements.

**Financial Statements - continued**

**STATEMENT OF CHANGES IN EQUITY OF THE COMPANY**

<b>Year ended 31 December, 2015</b>	<b>Share capital KShs'000</b>	<b>Share premium KShs'000</b>	<b>Fair value reserve KShs'000</b>	<b>Retained earnings KShs'000</b>	<b>Total equity KShs'000</b>
Balance at 1 January, 2015	97,627	2,554	282,457	1,191,444	1,574,082
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	153,660	153,660
<b>Other comprehensive income, net of tax</b>					
Change in available- for-sale financial assets	-	-	(79,717)	-	(79,717)
Deferred tax on available for sale assets	-	-	13,350	-	13,350
<b>Total other comprehensive income</b>	-	-	(66,367)		(66,367)
<b>Total comprehensive income for the year</b>	-	-	(66,367)	153,660	87,293
<b>Transactions with owners, recognised directly in equity</b>					
Dividends:					
- Final for 2014 paid	-	-	-	(58,576)	(58,576)
- Interim for 2015 paid	-	-	-	(42,956)	(42,956)
<b>Balance at 31 December, 2015</b>	<b><u>97,627</u></b>	<b><u>2,554</u></b>	<b><u>216,090</u></b>	<b><u>1,243,572</u></b>	<b><u>1,559,843</u></b>

The notes set out on pages 47 to 95 form an integral part of these financial statements.

## Financial Statements - continued

### STATEMENTS OF CASH FLOWS

	Note	GROUP		COMPANY	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<b>Cash flows from operating activities</b>					
Cash generated from operating activities	28	164,900	264,633	197,086	215,698
Tax paid	22	<u>(80,298)</u>	<u>(57,529)</u>	<u>(74,865)</u>	<u>(53,395)</u>
Net cash from operating activities		<u>84,602</u>	<u>207,104</u>	<u>122,221</u>	<u>162,303</u>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	14	(85,017)	(110,032)	(76,731)	(66,698)
Purchase of intangibles	15	(561)	-	(561)	-
Proceeds from disposal of equipment		4,196	3,228	4,079	1,978
Net proceeds on available for sale financial assets		(297,809)	(119,829)	(223,400)	(89,518)
Interest received		64,121	46,512	54,510	38,628
Dividends received	10(a)	<u>10,395</u>	<u>10,395</u>	<u>10,395</u>	<u>10,395</u>
Net cash used in investing activities		<u>(304,675)</u>	<u>(169,726)</u>	<u>(231,708)</u>	<u>(105,215)</u>
<b>Cash flows from financing activities</b>					
Dividends paid		<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>
Net cash used in financing activities		<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>	<u>(101,532)</u>
<b>Decrease in cash and cash equivalents</b>		<b><u>(321,605)</u></b>	<b><u>( 64,154)</u></b>	<b><u>(211,019)</u></b>	<b><u>(44,444)</u></b>
<b>Movement in cash and cash equivalents</b>					
At the beginning of year		400,568	478,158	245,915	290,359
Decrease in cash and cash equivalents		(321,605)	( 64,154)	(211,019)	( 44,444)
Effects of exchange rate changes on foreign cash and cash equivalents		<u>(7,546)</u>	<u>( 13,436)</u>	-	-
<b>At the end of year</b>	24	<b><u>71,417</u></b>	<b><u>400,568</u></b>	<b><u>34,896</u></b>	<b><u>245,915</u></b>

The notes set out on pages 47 to 95 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 REPORTING ENTITY

The Company is incorporated as a limited liability company under the Kenyan Companies Act, 2015 and is domiciled in Kenya. Its registered address is at Kitui Road, P.O. Box 18010 - 00500 Nairobi, Industrial Area. The consolidated financial statements of the Group as at and for the year ended 31 December 2016 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 and sale of industrial and medical gases and welding products.

The Company's shares are listed on the Nairobi Securities Exchange (NSE).

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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these financial statements by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income.

### (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 judgments

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, 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 judgments 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 judgments.

### (d) Functional and presentation currency

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

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these 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 control. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to influence those returns through its power over the investee. The investment in subsidiaries is recognised at cost, less impairment in the separate financial statements.

##### *(ii) Transactions eliminated on consolidation*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset.

#### (b) Foreign currency

##### *(i) Transactions and balances in Group entities*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured on historical cost basis in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from retranslation of available-for-sale equity investments are recognised in other comprehensive income.

##### *(ii) Foreign operations*

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 Group entity are translated at the closing rate at the reporting date;
- ii. Income and expenses 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 and expenses are translated at the dates of the transactions); and
- iii. All resulting exchange differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a foreign operation is sold, exchange differences recognised in other comprehensive income are reclassified to 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 sale 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. Sale of goods is 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.
- ii. Sale of services is recognised in the period in which the services are rendered by reference to the stage of completion of specific transactions. The stage of completion is assessed on the basis of actual services provided as a proportion of total services to be provided.

Revenue is only recognised when both the associated costs and the amount of revenue can be estimated reliably.

## Notes to the financial statements - *continued*

### (d) Finance income and finance costs

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. 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 and unwinding of the discount on provisions. 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 gross basis as either finance income or finance cost.

### (e) Income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current tax and deferred tax. Current tax is the amount of income tax payable or receivable on taxable profit or loss 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 nor loss, it is not recognised. 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.

A deferred tax asset and liability are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or other tax assets and liabilities will be realised simultaneously.

## Notes to the financial statements - continued

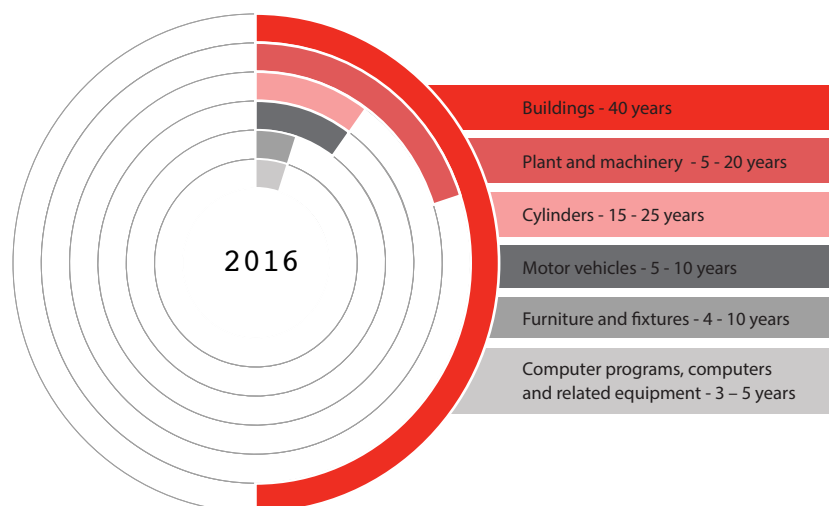
### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

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

All items of property, plant and equipment are measured 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. 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:



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

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

Gains or losses on disposal of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) are recognised in profit or loss.

#### (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 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.

## Notes to the financial statements - *continued*

### (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. If the purchase or production cost is higher than the net realisable value, inventories are written down to the net realisable value.

### (j) 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.

### (k) 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:

*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 trade and other receivables, balances due from Group companies and cash and cash equivalents.

*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, shares in quoted companies, treasury bills and bonds and corporate bonds.

*Other financial liabilities* are non-derivative financial liabilities that are recognised on the date the Group becomes party to the contractual provisions of the instruments. Other financial liabilities comprise of trade and other payables and balances due to related parties.

#### *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.

#### *iii. Measurement*

Financial instruments are measured initially at fair value plus, in the case of financial instruments not at fair value through profit or loss applicable transaction costs.

Subsequent to initial recognition all trading instruments and 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 other financial liabilities and loans and receivables 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.

Loans and receivables are recognised on the date they are originated.

## Notes to the financial statements - continued

### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

#### (k) Recognition and measurement of financial instruments - continued

##### *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.

##### *v. 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.

#### (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 such as trade receivables 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.

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (m) Employee benefits

##### *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.

##### *ii. Termination benefits*

Termination benefits are recognised as an expense at the earlier of the following dates:

- When the Group can no longer withdraw the offer; and
- When the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

##### *iii. Other Short term employee benefits*

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (n) 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.

#### (o) Dividends

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

#### (p) 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 arm's length.

#### (q) 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 management team who make decisions (under supervision of the Board of Directors) about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

## Notes to the financial statements - continued

### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

#### (r) New standards, amendments and interpretations effective and adopted during the year

The Group and Company have adopted the following new standards and amendments during the period/year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group and Company being 1 January, 2016. The nature and effects of the changes are explained below:

##### **New standard or amendments**

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortization
- Amendments to IAS 41 – Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- IFRS 14 Regulatory Deferral Accounts
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Annual improvements cycle (2012-2014) – various standards

##### **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)**

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January, 2016.

*The adoption of these changes did not have any impact on the financial statements of the Company and Group.*

##### **Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)**

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirements are effective from 1 January, 2016.

*The adoption of these changes did not have any impact on the financial statements of the Company and Group.*

##### **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January, 2016.

*The adoption of these changes did not have any impact on the financial statements of the Company and Group.*

##### **Equity Method in Separate Financial Statements (Amendments to IAS 27)**

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January, 2016.

*The adoption of these changes did not have any significant impact on the financial statements of the Company and Group.*

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (r) New standards, amendments and interpretations effective and adopted during the year - *continued*

##### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January, 2016.

*The adoption of these changes did not have any impact on the financial statements of the Company and Group.*

##### **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

##### **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

The amendments apply retrospectively for annual periods beginning on or after 1 January, 2016.

*The adoption of these changes did not have a significant impact on the financial statements of the Company and Group.*

##### **Disclosure Initiative (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January, 2016 and early application is permitted.

*The adoption of these changes did not have any impact on the financial statements of the Company and Group.*

## Notes to the financial statements - continued

### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

#### (r) New standards, amendments and interpretations effective and adopted during the year - continued

##### Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal. Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	Servicing contracts. Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.  Applicability of the amendments to IFRS 7 to condensed interim financial statements. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	Discount rate: regional market issue. Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	Disclosure of information 'elsewhere in the interim financial report'. Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The adoption of these changes did not have any significant impact on the financial statements of the Company and Group.

#### (s) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December, 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December, 2016, and have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early. These are summarised below:

New standard or amendments	Effective for annual periods beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January, 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January, 2017
IFRS 15 Revenue from Contracts with Customers	1 January, 2018
IFRS 9 Financial Instruments (2014)	1 January, 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts (Amendments to IFRS 4)	1 January, 2018
Classification and measurement of share-based payment transactions (amendments to IFRS2)	1 January 2017
IFRS 16 Leases	1 January, 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (s) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December, 2016 - *continued*

##### **Disclosure Initiative (Amendments to IAS 7)**

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January, 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

*The potential impact on the financial statements of the Group and Company is currently being assessed.*

##### **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January, 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

*The potential impact on the financial statements of the Group and Company is currently being assessed.*

## Notes to the financial statements - continued

### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

#### (s) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December, 2016 - continued

##### **IFRS 15 Revenue from Contracts with Customers**

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January, 2018, with early adoption permitted.

*The potential impact on the financial statements of the Group and Company is currently being assessed.*

##### **IFRS 9: Financial Instruments (2014)**

On 24 July, 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January, 2018 with retrospective application, early adoption permitted.

*The Group and Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.*

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)**

The following clarifications and amendments are contained in the pronouncement:

###### *Accounting for cash-settled share-based payment transactions that include a performance condition:*

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

###### *Classification of share-based payment transactions with net settlement features:*

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (s) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December, 2016 - *continued*

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) - *continued***

*Accounting for modifications of share-based payment transactions from cash-settled to equity-settled:*

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

*The adoption of these changes will is not expected to affect the amounts and disclosures of the Company's and Group's financial statements.*

##### **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)**

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January, 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April, 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January, 2018. Predominance is only reassessed if there is a change in the entity's activities.

*The adoption of these changes is not expected to affect the amounts and disclosures of the Company's and Group's financial statements.*

## Notes to the financial statements - continued

### 3 SIGNIFICANT ACCOUNTING POLICIES - continued

#### (s) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December, 2016 - continued

##### **IFRS 16: Leases**

On 13 January, 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to:

- (a) Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments;
- (b) Recognize depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- (c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

- Short-term leases (i.e. leases of 12 months or less); and
- Leases of low-value assets.

The new Standard is effective for annual periods beginning on or after 1 January, 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

*The Group and Company is assessing the potential impact on the financial statements resulting from the application of IFRS 16.*

##### **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

## Notes to the financial statements - *continued*

### 3 SIGNIFICANT ACCOUNTING POLICIES - *continued*

#### (t) Comparatives

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

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments 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 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 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 account, the Group makes judgments 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, plant and equipment.

#### (b) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made judgments 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's Board Audit and Risk 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 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 Committee.

## Notes to the financial statements - *continued*

### 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.

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (a) Credit risk - 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:

	2016		2015	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Available-for-sale financial assets	522,717	522,717	298,619	298,619
Term deposits	106,064	-	31,655	-
Trade and other receivables	303,778	357,094	355,955	414,788
Cash and cash equivalents	70,932	34,411	400,099	245,446
	<b>1,003,491</b>	<b>914,222</b>	<b>1,086,328</b>	<b>958,853</b>

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

	2016		2015	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Kenya	289,642	289,642	336,166	336,166
Uganda	10,955	-	56,663	-
Tanzania	18,574	-	19,573	-
	<b>319,171</b>	<b>289,642</b>	<b>412,402</b>	<b>336,166</b>

The ageing of trade receivables at the reporting date was:

	2016		2015	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Not past due	34,838	28,312	121,763	83,799
Past due 0-30 days	74,455	66,355	114,454	101,739
Past due 31-90 days	89,046	82,413	41,387	35,166
More than 90 days	120,832	112,562	134,798	115,462
	<b>319,171</b>	<b>289,642</b>	<b>412,402</b>	<b>336,166</b>
Neither past due nor impaired	<b>34,838</b>	<b>28,312</b>	<b>121,763</b>	<b>83,799</b>

Management believes that the amounts that are neither past due nor impaired will be collectible in full.

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (a) Credit risk - continued

##### Impairment losses

Trade receivables	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Balance at 1 January	88,594	94,026	73,890	61,968
(Loss reversal)/Impairment of trade receivables	(2,194)	9,890	(1,662)	12,022
Bad debts written off	(1,208)	(12,462)	(1,208)	-
Bad debts recovered	(534)	(100)	(152)	(100)
Effect of exchange rates	(468)	(2,760)	-	-
Balance at 31 December (Note 21)	<b>84,190</b>	<b>88,594</b>	<b>70,868</b>	<b>73,890</b>

#### (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 analysis liabilities into relevant maturity groupings based on the remaining period at 31 December, 2016 and 2015 to the contractual maturity date.

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

##### Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities (2016)</b>						
Trade and other payables	248,372	87,688	135,508	-	-	471,568
Liquidity gap - 2016	<b>248,372</b>	<b>87,688</b>	<b>135,508</b>	-	-	<b>471,568</b>
<b>Liabilities (2015)</b>						
Trade and other payables	52,894	181,511	371,062	-	-	605,467
Liquidity gap - 2015	<b>52,894</b>	<b>181,511</b>	<b>371,062</b>	-	-	<b>605,467</b>

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (b) Liquidity risk - continued

##### Company

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities (2016)</b>						
Trade and other payables	231,649	69,810	103,809	-	-	405,268
Liquidity gap - 2016	<u>231,649</u>	<u>69,810</u>	<u>103,809</u>	<u>-</u>	<u>-</u>	<u>405,268</u>
<b>Liabilities (2015)</b>						
Trade and other payables	44,545	143,592	352,259	-	-	540,396
Liquidity gap - 2015	<u>44,545</u>	<u>143,592</u>	<u>352,259</u>	<u>-</u>	<u>-</u>	<u>540,396</u>

#### (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.

##### (i) 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 South African Rand (ZAR), US Dollars (USD), Great Britain Pound (GBP), Uganda Shillings (Ushs) and Tanzania Shillings (TShs).

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)

2016	Group	USD	GBP	Euro	Rand	Total
<b>Assets</b>						
	Trade and other receivables	3,039	-	-	-	3,039
	At 31 December, 2016	3,039	-	-	-	3,039
<b>Liabilities</b>						
	Trade and other payables	(700)	(27,765)	(3,715)	(22,634)	(54,414)
	At 31 December, 2016	(700)	(27,765)	(3,715)	(22,634)	(54,414)
	Net position - 2016	<u>2,339</u>	<u>(27,765)</u>	<u>(3,715)</u>	<u>(22,634)</u>	<u>(51,775)</u>

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (c) Market risk - continued

##### (i) Currency risk - continued

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

2016	Company	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	2,972	-	-	-	2,972
	At 31 December, 2016	2,972	-	-	-	2,972
	<b>Liabilities</b>					
	Trade and other payables	-	(27,765)	(3,625)	(11,405)	(42,795)
	At 31 December, 2016	-	(27,765)	(3,625)	(11,405)	(42,795)
	Net balance sheet position - 2016	<u>2,972</u>	<u>(27,765)</u>	<u>(3,625)</u>	<u>(11,405)</u>	<u>(39,823)</u>

2015	Group	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	32,235	-	-	-	32,235
	At 31 December, 2015	32,235	-	-	-	32,235
	<b>Liabilities</b>					
	Trade and other payables	(13,329)	(45,448)	(3,145)	(19,026)	(80,948)
	At 31 December 2015	(13,329)	(45,448)	(3,145)	(19,026)	(80,948)
	Net position - 2015	<u>18,906</u>	<u>(45,448)</u>	<u>(3,145)</u>	<u>(19,026)</u>	<u>(48,713)</u>

2015	Company	USD	GBP	Euro	Rand	Total
	<b>Assets</b>					
	Trade and other receivables	848	-	-	-	848
	At 31 December, 2015	848	-	-	-	848
	<b>Liabilities</b>					
	Trade and other payables	(11,897)	(45,448)	(3,052)	(16,486)	(76,883)
	At 31 December, 2015					
	Net balance sheet position - 2015	<u>(11,049)</u>	<u>(45,448)</u>	<u>(3,052)</u>	<u>(16,486)</u>	<u>(76,035)</u>

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (c) Market risk - continued

##### (i) Currency risk - continued

The following exchange rates were applied in the respective periods:

	Annual average rates		Closing rates	
	2016	2015	At 31 December 2016	At 31 December 2015
US Dollar	103.48	94.53	107.76	102.30
Sterling Pound	143.15	144.11	126.43	150.78
South African Rand	6.63	7.85	7.46	6.61
Euro	<u>110.97</u>	<u>106.00</u>	<u>102.47</u>	<u>111.10</u>

#### Sensitivity analysis

A 10 percent strengthening of the Kenyan Shilling against the following currencies at 31 December, 2016 would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis has been performed on the same basis as in 2015.

Group	Profit or Loss / Equity	
	2016 KShs '000	2015 KShs '000
<b>As at 31 December</b>		
US Dollar	(234)	(1,890)
GBP	2,777	4,545
Euro	372	315
Rand	2,263	1,903
<b>Net impact</b>	<b>5,178</b>	<b>4,873</b>

Company	Profit or Loss / Equity	
	2016 KShs '000	2015 KShs '000
<b>As at 31 December</b>		
US Dollar	(297)	1,105
GBP	2,777	4,545
Euro	363	305
Rand	1,141	1,649
<b>Net impact</b>	<b>3,984</b>	<b>7,604</b>

A 10 percent weakening of the Shilling against the above currencies at 31 December, 2016 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.

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (c) Market risk - continued

##### (ii) 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.

Group	Effective interest rate	On demand	Due within 3 months	Due within 3 and 12 months	Due between 1 and 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December, 2016	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>ASSETS</b>								
Available-for-sale financial assets	11.4	-	-	511,637	11,080	-	-	522,717
Shares in quoted company	-	-	-	-	-	-	198,990	198,990
Trade and other receivables	-	-	-	-	-	-	296,135	296,135
Term deposits	8	-	-	106,064	-	-	-	106,064
Cash and cash equivalents	-	-	-	-	-	-	71,417	71,417
		-	-	<b>617,701</b>	<b>11,080</b>	-	<b>566,542</b>	<b>1,195,323</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	<b>471,568</b>	<b>471,568</b>
<b>As at 31 December, 2015</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	12.49	-	-	278,438	20,181	-	-	298,619
Shares in quoted company	-	-	-	-	-	-	242,055	242,055
Trade and other receivables	-	-	-	-	-	-	355,955	355,955
Term deposits	11	-	-	31,655	-	-	-	31,655
Cash and cash equivalents	-	-	89,314	209,217	-	-	102,037	400,568
		-	<b>89,314</b>	<b>519,310</b>	<b>20,181</b>	-	<b>700,047</b>	<b>1,328,852</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	<b>605,467</b>	<b>605,467</b>

**Notes to the financial statements - continued**

**5 FINANCIAL RISK MANAGEMENT - continued**

**(c) Market risk - continued**

*(ii) Interest rate risk - continued*

<b>Company</b>	<b>Effective interest rate</b>	<b>On demand</b>	<b>Due within 3 months</b>	<b>Due within 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>As at 31 December, 2016</b>	<b>%</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>ASSETS</b>								
Available-for-sale financial assets	11.4	-	-	511,637	11,080	-	-	522,717
Shares in quoted company	-	-	-	-	-	-	198,990	198,990
Trade and other receivables	-	-	-	-	-	-	345,352	345,352
Term deposits	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	34,896	34,896
		-	-	<b>511,637</b>	<b>11,080</b>	-	<b>579,238</b>	<b>1,101,955</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	-	<b>405,268</b>	<b>405,268</b>
<b>As at 31 December, 2015</b>								
<b>ASSETS</b>								
Available-for-sale financial assets	12.54	-	-	278,438	20,181	-	-	298,619
Shares in quoted company	-	-	-	-	-	-	242,055	242,055
Trade and other receivables	-	-	-	-	-	-	414,788	414,788
Term deposits	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	209,217	-	-	36,698	245,915
		-	-	<b>487,655</b>	<b>20,181</b>	-	<b>693,541</b>	<b>1,201,377</b>
<b>LIABILITIES</b>								
Trade and other payables	-	-	-	-	-	<b>540,396</b>	<b>540,396</b>	<b>540,396</b>

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (c) Market risk - continued

##### (ii) Interest rate risk - continued

##### Sensitivity analysis

An increase of one percentage point in interest rates at the reporting date would have increased/ (decreased) profit or loss and equity 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 2015.

##### Effect in Kenyan Shillings thousands

	Profit or loss			
	Group		Company	
	2016 KShs	2015 KShs	2016 KShs	2015 KShs
Interest bearing assets	6,288	3,303	5,227	2,986

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.

##### (iii) 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, 2016 and 31 December 2015 is as follows:

	2016 KShs	2015 KShs
<b>Group and Company</b>		
Shares in quoted Company (Note 17)	198,990	242,055

##### Sensitivity analysis on equity prices

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

##### Effect in Kenyan Shillings thousands

	Other Reserves	
	2016 KShs	2015 KShs
<b>Group and company</b>		
Shares in quoted Company	(19,891)	(24,206)

An increase of 10% in the share price would have had an equal but opposite effect on the reserves, on the basis that all other variables remain constant.

## Notes to the financial statements - *continued*

### 5 FINANCIAL RISK MANAGEMENT - *continued*

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

The fair values of other financial assets and financial liabilities is the same as the carrying amounts as shown in the statement of financial position due to their short-term nature.

<b>Group</b>	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Other amortised cost</b>	<b>Total carrying value</b>	<b>Fair value</b>
	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>
<b>2016</b>					
<b>Financial assets</b>					
Available for sale financial assets	-	721,707	-	721,707	721,707
Trade and other receivables	303,778	-	-	303,778	303,778
Term deposits	106,064	-	-	106,064	106,064
Cash and cash equivalents	71,417	-	-	71,417	71,417
	<b>481,259</b>	<b>721,707</b>	<b>-</b>	<b>1,202,966</b>	<b>1,202,966</b>
<b>Financial liabilities</b>					
Trade and other payables	-	-	471,568	471,568	471,568
<b>2015</b>					
<b>Financial assets</b>					
Available for sale financial assets	-	540,674	-	540,674	540,674
Trade and other receivables	355,955	-	-	355,955	355,955
Term deposits	31,655	-	-	31,655	31,655
Cash and cash equivalents	400,568	-	-	400,568	400,568
	<b>788,178</b>	<b>540,674</b>	<b>-</b>	<b>1,328,852</b>	<b>1,328,852</b>
<b>Financial liabilities</b>					
Trade and other payables	-	-	605,467	605,467	605,467

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

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

<b>Company</b>					
<b>2016</b>	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Other amortised cost</b>	<b>Total carrying value</b>	<b>Fair value</b>
	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>	<b>KShs '000</b>
<b>Financial assets</b>					
Available for sale financial assets	-	721,707	-	721,707	721,707
Trade and other receivables	357,094	-	-	357,094	357,094
Term deposits	-	-	-	-	-
Cash and cash equivalents	34,896	-	-	34,896	34,896
	<b>391,990</b>	<b>721,707</b>	<b>-</b>	<b>1,113,697</b>	<b>1,113,697</b>
<b>Financial liabilities</b>					
Trade and other payables	-	-	405,268	405,268	405,268
<b>2015</b>					
<b>Financial assets</b>					
Available for sale financial assets	-	540,674	-	540,674	540,674
Trade and other receivables	414,788	-	-	414,788	414,788
Term deposits	-	-	-	-	-
Cash and cash equivalents	245,915	-	-	245,915	245,915
	<b>660,703</b>	<b>540,674</b>	<b>-</b>	<b>1,201,377</b>	<b>1,201,377</b>
<b>Financial liabilities</b>					
Trade and other payables	-	-	540,396	540,396	540,396

## Notes to the financial statements - continued

### 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	Treasury bills and bonds	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, 2016:

	Group and Company			
	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
<b>31 December, 2016:</b>				
Assets				
Available-for-sale financial assets	198,990	522,717	-	721,707
<b>Total assets</b>	<b>198,990</b>	<b>522,717</b>	<b>-</b>	<b>721,707</b>
<b>31 December, 2015:</b>				
Assets				
Available-for-sale financial assets	242,056	298,618	-	540,674
<b>Total assets</b>	<b>242,056</b>	<b>298,618</b>		<b>540,674</b>

Valuation technique and significant observable inputs				
	Type	Valuation technique	Significant observable inputs:	Interrelationships between the significant observable inputs and fair value measurements
	Treasury bonds	Market comparison technique The valuation model is based on market data derived from Treasury bond prices as listed in the Nairobi Securities Exchange.	Dirty price as per the market.	The estimated fair value will increase/( decrease) if the dirty price per the market increases/(decreases)

## Notes to the financial statements - continued

### 5 FINANCIAL RISK MANAGEMENT - continued

#### (e) 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. Capital comprises all components of equity (i.e. share capital, retained earnings, and other reserves).

There is no externally imposed capital requirement.

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. These are 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.

Year ended 31 December, 2016	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	<u>1,010,649</u>	<u>71,634</u>	<u>61,828</u>	<u>(67,392)</u>	<u>1,076,719</u>
Operating profit/(loss)	131,214	(7,749)	9,322	(419)	132,368
Net finance income	<u>63,170</u>	<u>(2,966)</u>	<u>(1,890)</u>	-	<u>58,314</u>
Profit/(loss) before income tax	194,384	(10,715)	7,432	(419)	190,682
Income tax expense	<u>(59,914)</u>	<u>(2,150)</u>	<u>(2,295)</u>	-	<u>(64,359)</u>
<b>Profit/(loss) for the year</b>	<b><u>134,470</u></b>	<b><u>(12,865)</u></b>	<b><u>5,137</u></b>	<b><u>(419)</u></b>	<b><u>126,323</u></b>
Year ended 31 December, 2015	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Sales	<u>1,085,224</u>	<u>75,885</u>	<u>98,442</u>	<u>(73,131)</u>	<u>1,186,420</u>
Operating profit/(loss)	159,725	(11,503)	11,632	321	160,175
Net finance income	<u>61,764</u>	<u>(4,580)</u>	<u>4,362</u>	-	<u>61,546</u>
Profit before income tax	221,489	(16,083)	15,994	321	221,721
Income tax expense	<u>(67,829)</u>	<u>501</u>	<u>(5,793)</u>	-	<u>(73,121)</u>
<b>Profit/(loss) for the year</b>	<b><u>153,660</u></b>	<b><u>(15,582)</u></b>	<b><u>10,201</u></b>	<b><u>321</u></b>	<b><u>148,600</u></b>

## Notes to the financial statements - continued

### 6 SEGMENT INFORMATION - continued

Other segment items included in the profit or loss are

<b>Year ended 31 December, 2016</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Total KShs'000</b>
Depreciation	63,824	5,888	596	70,309
Amortisation of intangible assets	454	80	-	534
Amortisation of operating leases	105	-	-	105
Impairment of inventories	9,443	(1,263)	921	9,101
Impairment of trade receivables (Note 5(a))	(1,662)	(1,959)	1,427	2,194
<b>Year ended 31 December, 2015</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Total KShs'000</b>
Depreciation	62,265	4,466	3,455	70,186
Amortisation of intangible assets	1,211	80	-	1,291
Amortisation of operating leases	97	-	-	97
Impairment of inventories	13,325	3,708	2,846	20,479
Impairment of trade receivables	12,022	(865)	(1,267)	9,890

The segment assets and liabilities at 31 December, 2016 and capital expenditure for the period then ended are as follows:

<b>Year ended 31 December, 2016</b>	<b>Kenya KShs'000</b>	<b>Tanzania KShs'000</b>	<b>Uganda KShs'000</b>	<b>Elimination KShs'000</b>	<b>Total KShs'000</b>
Assets	1,961,844	148,215	122,024	(93,530)	2,138,553
Liabilities	473,743	109,258	34,087	(91,235)	525,853
Capital expenditure:					
Additions to intangibles	561	-	-	-	561
Additions to property, plant and equipment	76,731	8,167	119	-	85,017
<b>Year ended 31 December, 2015</b>					
Assets	2,060,639	127,234	144,442	(72,526)	2,259,789
Liabilities	548,159	75,713	53,628	(70,650)	606,850
Capital expenditure:					
Additions to property, plant and equipment	66,698	43,334	-	-	110,032

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.

## Notes to the financial statements - *continued*

### 7 REVENUE

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Sale of medical and industrial gases	928,634	965,140	857,575	891,623
Equipment sales	92,672	80,836	80,928	69,710
Equipment and facilities rentals	45,117	70,038	62,138	69,113
Service and delivery revenue	<u>10,296</u>	<u>70,406</u>	<u>10,008</u>	<u>54,778</u>
	<u>1,076,719</u>	<u>1,186,420</u>	<u>1,010,649</u>	<u>1,085,224</u>

**Notes to the financial statements - continued**

**8 OTHER OPERATING INCOME AND EXPENSES**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>(a) Other income</b>				
Profit on disposal of property, plant and equipment	<u>1,741</u>	<u>3,228</u>	<u>1,623</u>	<u>1,978</u>
<b>(b) Expenses by nature comprise:</b>				
Raw materials, products for resale and consumables	227,761	312,626	222,550	273,117
Employee benefits and other staff costs	255,400	238,969	246,324	230,201
Electricity costs	124,755	125,290	124,583	125,088
Depreciation and amortisation of leasehold land	70,414	70,292	63,925	62,370
Amortization of intangible assets	534	1,291	454	1,211
Repairs and maintenance	66,256	48,914	65,585	48,452
Vehicle expenses	52,679	56,170	49,523	52,929
Management fee	21,366	24,128	19,040	20,242
Other expenses	<u>126,927</u>	<u>151,793</u>	<u>89,074</u>	<u>113,867</u>
<b>Total</b>	<b><u>946,092</u></b>	<b><u>1,029,473</u></b>	<b><u>881,058</u></b>	<b><u>927,477</u></b>
<b>Expenses by function comprise:</b>				
Cost of sales	524,047	603,181	515,252	558,062
Distribution costs	102,617	101,093	98,183	96,403
Selling and administrative expenses	<u>319,428</u>	<u>325,199</u>	<u>267,623</u>	<u>273,012</u>
<b>Total</b>	<b><u>946,092</u></b>	<b><u>1,029,473</u></b>	<b><u>881,058</u></b>	<b><u>927,477</u></b>
<b>(c) Employee benefit expense</b>				
The following items are included within staff costs:				
Social security benefits	871	755	213	221
Retirement benefits costs:				
- defined contribution scheme	<u>17,075</u>	<u>16,677</u>	<u>17,028</u>	<u>16,514</u>

## Notes to the financial statements - continued

### 9 FINANCE INCOME AND FINANCE COSTS

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<b>(a) Finance income</b>				
Interest income	58,992	63,948	51,059	54,842
Dividend income	10,395	10,395	10,395	10,395
Foreign currency exchange gains	2,476	-	2,476	-
<b>Total</b>	<b>71,863</b>	<b>74,343</b>	<b>63,930</b>	<b>65,237</b>
<b>(b) Finance costs</b>				
Interest paid	760	267	760	267
Foreign currency exchange loss	12,789	12,530	-	3,206
<b>Total</b>	<b>13,549</b>	<b>12,797</b>	<b>760</b>	<b>3,473</b>

### 10 PROFIT BEFORE TAXATION

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Profit before taxation is arrived at after charging/(crediting):				
Repairs and maintenance expenditure on property, plant and equipment	66,256	48,914	65,585	48,452
Directors' remuneration:				
Fees	6,916	5,454	6,295	4,695
Salaries and short term benefits	38,214	34,318	38,214	34,318
Provident fund contributions	3,068	3,432	3,068	3,432
Depreciation	70,309	70,186	63,824	62,265
Impairment of trade receivables	(9,552)	9,890	(7,865)	12,022
Amortisation of intangible assets	534	1,291	454	1,211
Operating leases charges:				
Rentals expense	10,315	8,854	1,000	1,000
Auditors remuneration	5,315	4,942	4,347	3,997
And after crediting:				
Profit on disposal of property, plant and equipment	1,741	3,228	1,623	1,978

**Notes to the financial statements - continued**

**11 INCOME TAX EXPENSE**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>Current tax expense:</b>				
Current year (Note 22)	51,626	82,718	49,251	76,839
<b>Deferred tax credit/(charge):</b>				
Decrease/(Increase) in deferred tax assets (Note 18)	13,285	(10,803)	10,753	(9,010)
Prior year deferred tax (under)/over provision (Note 18)	(552)	1,206	(90)	-
	12,733	(9,597)	10,663	(9,010)
<b>Income tax expense</b>	<b>64,359</b>	<b>73,121</b>	<b>59,914</b>	<b>67,829</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Profit before tax	190,682	221,721	194,384	221,489
Tax calculated at a tax rate of 30%	57,205	66,516	58,315	66,447
Tax effect of:				
Dividend income taxed at 5%	(2,599)	(2,599)	(2,599)	(2,599)
Expenses not deductible for tax purposes	4,578	8,118	4,288	3,981
Under provision of deferred tax in prior years (Note 18)	(552)	1,206	(90)	-
Tax losses not recognised	5,721	-	-	-
Translation differences	6	(120)	-	-
<b>Income tax expense</b>	<b>64,359</b>	<b>73,121</b>	<b>59,914</b>	<b>67,829</b>

## Notes to the financial statements - *continued*

### 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.

There were no potentially dilutive shares outstanding at 31 December, 2016 or 31 December, 2015. Therefore, the dilutive earnings per share and the calculation thereof equals the basic earnings per share.

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Net profit attributable to shareholders	126,323	148,600	134,470	153,660
Weighted average number of ordinary shares in issue	19,525	19,525	19,525	19,525
Basic and dilutive earnings per share (KShs)	<u>6.47</u>	<u>7.61</u>	<u>6.89</u>	<u>7.87</u>

### 13 DIVIDENDS PER SHARE

At the next annual general meeting a final dividend in respect of the year ended 31 December, 2016 of KShs 3.00 per share (2015: KShs 3.00 per share), amounting to a total of KShs 58,576,338 (2015: KShs 58,576,338) is to be proposed.

During the year an interim dividend of KShs 2.20 per share (2015: KShs 2.20 per share), amounting to a total of KShs 42,955,981 (2015: KShs 42,955,981) was paid. The total dividend for the year is therefore KShs 5.20 per share (2015: KShs 5.20), amounting to a total of KShs 101,532,320 (2015: KShs 101,532,320).

Payment of dividends is subject to withholding tax at a rate of either 5% for resident shareholders or 10% in for non-resident shareholders.

**Notes to the financial statements - continued**

**14 PROPERTY, PLANT AND EQUIPMENT**

**(a) Group**

<b>2016</b>	<b>Land &amp; Buildings KShs'000</b>	<b>Plant &amp; Machinery KShs'000</b>	<b>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>
<b>Cost:</b>							
At 1 January, 2016	123,716	548,322	231,322	754,308	54,529	32,549	1,744,746
Transfers	-	-	31,482	1,067	-	(32,549)	-
Additions	-	32,137	13,329	19,373	5,348	14,830	85,017
Reallocation	300	-	-	-	-	-	300
Removed from register	-	-	(45,638)	-	-	-	(45,638)
Disposals	-	-	(1,400)	(5,342)	-	-	(6,742)
Currency translation differences	(85)	(547)	(188)	(1,000)	(74)	-	(1,894)
At 31 December, 2016	123,931	579,912	228,907	768,406	59,803	14,830	1,775,789
<b>Depreciation:</b>							
At 1 January, 2016	(56,534)	(419,862)	(113,805)	(345,997)	(46,753)	-	(982,951)
Charge for the year	(3,467)	(23,503)	(14,002)	(25,852)	(3,485)	-	(70,309)
Reallocation	(300)	35,097	(35,097)	-	-	-	(300)
Removed from register	-	-	45,638	-	-	-	45,638
On disposals	-	-	1,400	2,887	-	-	4,287
Currency translation differences	5	367	41	481	74	-	968
At 31 December, 2016	(60,296)	(407,901)	(115,825)	(368,481)	(50,164)	-	(1,002,667)
<b>Carrying value:</b>							
At 31 December, 2016	<b>63,636</b>	<b>172,011</b>	<b>113,082</b>	<b>399,925</b>	<b>9,638</b>	<b>14,830</b>	<b>773,122</b>

During the year, the Group received compensation of KShs 4,195,990 (2015: 1,571,933) from third parties for lost cylinders and disposal of replaced trucks. The net book value of the disposed assets was KShs 2,455,204. Re-allocations were done in the year to correct the differences that existed in the fixed assets register between the gross book value of the different asset classes and the accumulated depreciation as well as re-allocations from intangible assets to property plant and equipment.

## Notes to the financial statements - continued

### 14 PROPERTY, PLANT AND EQUIPMENT - continued

#### (a) Group - continued

2015	Land & Buildings KShs'000	Plant & Machinery KShs'000	Motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost:</b>							
At 1 January, 2015	114,657	519,945	223,267	697,874	39,458	11,209	1,606,410
Additions	7,862	33,392	19,052	12,266	4,911	32,549	110,032
Transfers	2,684	-	8,248	-	-	(10,932)	-
Reallocation	(300)	(3,801)	-	47,367	8,410	-	51,676
Disposals	-	-	(18,304)	-	-	-	(18,304)
Currency translation differences	(1,187)	(1,214)	(941)	(3,199)	1,750	(277)	(5,068)
At 31 December, 2015	123,716	548,332	231,322	754,308	54,529	32,549	1,744,746
<b>Depreciation:</b>							
At 1 January, 2015	(54,822)	(388,987)	(123,255)	(281,525)	(34,816)	-	(883,405)
Charge for the year	(3,094)	(26,814)	(9,356)	(26,753)	(4,169)	-	(70,186)
Reallocation	1,271	(4,772)	-	(38,699)	(7,911)	-	(50,111)
On disposals	-	-	18,304	-	-	-	18,304
Currency translation differences	111	711	502	980	143	-	2,447
At 31 December, 2015	(56,534)	(419,862)	(113,805)	(345,997)	(46,753)	-	(982,951)
<b>Carrying value:</b>							
At 31 December, 2015	<b>67,182</b>	<b>163,077</b>	<b>82,901</b>	<b>408,311</b>	<b>7,776</b>	<b>32,549</b>	<b>761,795</b>

**Notes to the financial statements - continued**

**14 PROPERTY, PLANT AND EQUIPMENT - continued**

**(b) Company**

<b>2016</b>	<b>Land &amp; Buildings</b>	<b>Plant &amp; Machinery</b>	<b>Motor vehicles</b>	<b>Cylinders</b>	<b>Furniture and equipment</b>	<b>Capital work in progress</b>	<b>Total</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>Cost</b>							
At 1 January, 2016	113,169	515,260	207,760	729,356	51,168	32,549	1,649,262
Transfers	-	-	31,482	1,067	-	(32,549)	-
Reallocation	300	-	-	-	-	-	300
Additions	-	24,362	13,329	19,373	4,837	14,830	76,731
Assets removed	-	-	(45,638)	-	-	-	(45,638)
Disposals	-	-	(1,400)	(5,342)	-	-	(6,742)
At 31 December, 2016	113,469	539,622	205,533	744,454	56,005	14,830	1,673,913
<b>Depreciation</b>							
At 1 January, 2016	(56,094)	(407,697)	(108,726)	(333,853)	(43,797)	-	(950,167)
Reallocation	(300)	35,097	(35,097)	-	-	-	(300)
Charge for the year	(2,944)	(21,096)	(11,660)	(24,810)	(3,314)	-	(63,824)
Assets removed	-	-	45,638	-	-	-	45,638
Disposals	-	-	1,400	2,886	-	-	4,286
At 31 December, 2016	(59,338)	(393,696)	(108,445)	(355,777)	47,111	-	964,368
<b>Carrying value:</b>							
At 31 December, 2016	54,131	145,925	97,088	388,677	8,894	14,830	709,545

During the year, the Company received compensation of KShs 4,078,138 (2015: 568,637) from third parties for lost cylinders and disposal of replaced trucks. The net book value of the disposed assets was KShs 2,455,204.

## Notes to the financial statements - continued

### 14 PROPERTY, PLANT AND EQUIPMENT - continued

#### (b) Company - continued

2015	Land & Buildings KShs'000	Plant & Machinery KShs'000	Motor vehicles KShs'000	Cylinders KShs'000	Furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost</b>							
At 1 January, 2015	113,469	505,447	213,210	669,723	37,871	8,248	1,547,968
Reallocation	(300)	(3,801)	-	47,367	8,499	-	51,765
Additions	-	13,614	3,471	12,266	4,798	32,549	66,698
Disposals	-	-	(17,169)	-	-	-	(17,169)
Transfers	-	-	8,248	-	-	(8,248)	-
At 31 December, 2015	113,169	515,260	207,760	729,356	51,168	32,549	1,649,262
<b>Depreciation</b>							
At 1 January, 2015	(53,633)	(380,899)	(117,888)	(269,175)	(33,432)	-	(855,027)
Reallocation	193	(4,764)	-	(39,011)	(6,462)	-	(50,044)
Charge for the year	(2,654)	(22,034)	(8,007)	(25,667)	(3,903)	-	(62,265)
Disposals	-	-	17,169	-	-	-	17,169
At 31 December, 2015	(56,094)	(407,697)	(108,726)	(333,853)	(43,797)	-	(950,167)
<b>Carrying value:</b>							
At 31 December, 2015	57,075	107,563	99,034	395,503	7,371	32,549	699,095

Included in property, plant and equipment are assets with a gross value of KShs 359,440,852 (2015: KShs 342,719,812) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 51,780,882 (2015: KShs 45,489,450).

There were no idle assets at 31 December, 2016 and 2015.

The Group had no property pledged as security as at 31 December, 2016 and 31 December, 2015.

**Notes to the financial statements - continued**

**15 INTANGIBLE ASSETS**

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<b>Cost:</b>				
At beginning of year	16,299	22,544	16,061	22,544
Reallocation to property plant and equipment (Note 14)	-	(6,220)	-	(6,483)
Additions	561	-	561	-
Translation differences	-	(25)	-	-
At end of year	<u>16,860</u>	<u>16,299</u>	<u>16,622</u>	<u>16,061</u>
<b>Accumulated amortisation</b>				
At beginning of year	(15,629)	(18,982)	(15,537)	(18,982)
Reallocation to property plant and equipment (Note 14)	-	4,644	-	4,656
Charge for the year	(534)	(1,291)	(454)	(1,211)
At end of year	(16,163)	(15,629)	15,991	(15,537)
<b>Net carrying amount at 31 December</b>	<u>697</u>	<u>670</u>	<u>631</u>	<u>524</u>

**16 INVESTMENT IN SUBSIDIARIES**

Company	Percentage shareholding	2016 KShs'000	2015 KShs'000
East African Oxygen Limited	100%	-	-
BOC Tanzania Limited	100%	10	10
BOC Uganda Limited	100%	50	50
Kivuli Limited	100%	-	-
<b>Total</b>		<u>60</u>	<u>60</u>

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 sale of industrial and medical gases, and welding products.

Kivuli Limited, a structured consolidated entity, is incorporated in Kenya and holds certain investments on behalf of BOC Kenya Limited.

## Notes to the financial statements - continued

### 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company	2016 KShs'000	2015 KShs'000
<b>Non-current:</b>		
Shares in quoted company	198,990	242,055
Treasury bonds	7,253	16,247
Corporate bonds	3,827	3,934
<b>Total non-current</b>	<u>210,070</u>	<u>262,236</u>
<b>Current:</b>		
Treasury bills	<u>511,637</u>	<u>278,438</u>

The weighted average effective interest rate on the treasury bills at year end was 11.46% (2015: 12.3%), while that on treasury and corporate bonds was 11.13% (2015: 10.4%).

### 18 DEFERRED TAX

#### Deferred tax asset

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
At the beginning of year	40,605	18,330	33,315	10,955
Recognised in profit or loss (Note 11)	(13,285)	10,803	(10,753)	9,010
Prior year (over)/under provision (Note 11)	552	(1,206)	90	-
Unrealised gain/(loss) on available for sale financial assets	(210)	(1,118)	(210)	(1,118)
Deferred tax on fair value changes on equity instruments	-	14,468	-	14,468
Currency translation differences	(134)	(672)	-	-
<b>At end of year</b>	<u>27,528</u>	<u>40,605</u>	<u>22,442</u>	<u>33,315</u>

Consolidated deferred tax assets and deferred tax charge/(credit) to profit or loss account are attributable to the items on the next two pages.

**Notes to the financial statements - continued**

**18 DEFERRED TAX - continued**

**(a) Group**

<b>Year ended 31 December, 2016</b>	<b>At 1 January Kshs '000</b>	<b>Recognised in profit or loss Kshs '000</b>	<b>Prior year under provision Kshs '000</b>	<b>Recognised in other comprehensive income Kshs '000</b>	<b>Foreign currency translation differences Kshs '000</b>	<b>At 31 December Kshs '000</b>
Property, plant and equipment	(56,067)	(6,040)	90	-	162	(61,855)
Unrealized exchange (gains)\ losses	2,532	3,569	-	-	(4)	6,097
Accrued expenses and provisions	91,404	(10,846)	(526)	-	(240)	79,792
Unrealized loss on available for sale financial assets	(376)	-	-	(210)	-	(586)
Tax losses	3,112	-	993	-	(25)	4,080
Currency translation	-	32	(5)	-	(27)	-
<b>Totals</b>	<b>40,605</b>	<b>(13,2850)</b>	<b>552</b>	<b>(210)</b>	<b>(134)</b>	<b>27,528</b>

**Year ended 31 December, 2015**

Property, plant and equipment	(54,384)	(1,741)	58	-	-	(56,067)
Unrealized exchange (gains)\ losses	(1,078)	3,610	-	-	-	2,532
Accrued expenses and provisions	87,518	5,822	(1,264)	-	(672)	91,404
Unrealized loss on available for sale financial assets	742	-	-	(1,118)	-	(376)
Tax losses	-	3,112	-	-	-	3,112
Deferred tax on fair value change on equity instruments	(14,468)	-	-	14,468	-	-
<b>Totals</b>	<b>18,330</b>	<b>10,803</b>	<b>(1,206)</b>	<b>13,350</b>	<b>(672)</b>	<b>40,605</b>

## Notes to the financial statements - continued

### 18 DEFERRED TAX - continued

#### (b) Company

Year ended 31 December, 2016	At 1 January KShs '000	Recognised in profit or loss KShs '000	Prior year under provision KShs '000	Recognised in other comprehensive income KShs '000	At 31 December KShs '000
Property, plant and equipment	(50,301)	(4,702)	90	-	(54,913)
Unrealized loss on available for sale financial assets	(376)	-	-	(210)	(586)
Accrued expenses and provisions	82,815	(4,909)	-	-	77,906
Unrealised exchange (gains)/losses	1,177	(1,142)	-	-	35
<b>Totals</b>	<b>33,315</b>	<b>(10,753)</b>	<b>90</b>	<b>(210)</b>	<b>22,442</b>

#### Company:

#### Year ended 31 December, 2015

Property, plant and equipment	(48,388)	(1,913)	-	-	(50,301)
Unrealized loss on available for sale financial assets	742	-	-	(1,118)	(376)
Accrued expenses and provisions	74,458	8,357	-	-	82,815
Deferred tax on fair value change on equity instruments	(14,468)	-	-	14,468	-
Unrealised exchange (gains)/losses	(1,389)	2,566	-	-	1,177
<b>Totals</b>	<b>10,955</b>	<b>9,010</b>	<b>-</b>	<b>13,350</b>	<b>33,315</b>

## Notes to the financial statements - continued

### 19 PREPAID OPERATING LEASES

Group and Company	2016 KShs'000	2015 KShs'000
<b>Leases expiring beyond five years</b>		
At the beginning of the year	3,398	3,398
Reallocation from property plant and equipment (Note 14)	-	97
Amortisation for the year	(105)	(97)
<b>At the end of the year</b>	<b><u>3,293</u></b>	<b><u>3,398</u></b>

### 20 INVENTORIES

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Raw materials	7,292	20,864	7,292	20,864
Finished goods and other saleable stock	122,569	136,503	104,833	118,498
Spares	50,546	52,888	50,474	52,751
Goods in transit	25,786	31,451	25,786	31,443
Work in progress	4,711	3,294	550	3,294
Impairment allowance	(68,935)	(83,572)	(61,382)	(72,377)
<b>Total</b>	<b><u>141,969</u></b>	<b><u>161,428</u></b>	<b><u>127,553</u></b>	<b><u>154,473</u></b>

The cost of inventory recognised as an expense and included in cost of sales amounted to KShs 483,854,407 (2015: KShs 546,320,732) for Group and KShs 410,949,195 (2015: KShs 511,019,767) for Company.

### 21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Trade receivables	319,171	412,402	289,642	336,166
Allowance for impairment	(84,190)	(88,594)	(70,868)	(73,890)
Other receivables	234,981	323,808	218,774	262,276
Receivables from related companies (Note 32(b))	68,797	32,147	47,086	17,269
Prepayments	-	-	91,234	135,243
	16,506	3,646	7,065	1,712
<b>Total</b>	<b><u>320,284</u></b>	<b><u>359,601</u></b>	<b><u>364,159</u></b>	<b><u>416,500</u></b>

## Notes to the financial statements - continued

### 22 TAX RECOVERABLE

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
At 1 January	20,562	50,133	14,048	37,492
Reclassified to other debtors		(3,403)	-	-
Charge for the year (Note 11)	(51,626)	(82,718)	(49,251)	(76,839)
Tax paid in respect of current year	82,152	57,529	76,719	53,395
Utilised in respect of prior years' liability	(1,854)	-	(1,854)	-
Foreign currency translation	(13)	(979)	-	-
<b>At 31 December</b>	<b>49,221</b>	<b>20,562</b>	<b>39,662</b>	<b>14,048</b>

### 23 TERM DEPOSITS

Term deposits comprise fixed and call deposits with financial institutions whose maturities are between three and twelve months.

### 24 CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Cash at bank and in hand	46,012	102,036	9,492	36,698
Fixed and call deposits	25,405	298,532	25,404	209,217
<b>Total</b>	<b>71,417</b>	<b>400,568</b>	<b>34,896</b>	<b>245,915</b>

## Notes to the financial statements - *continued*

### 25 SHARE CAPITAL AND SHARE PREMIUM

#### (a) Share capital

	Number of shares	Share capital KShs'000
<b>Group and Company:</b>		
Authorised (ordinary shares)	20,000,000	100,000
Issued and fully paid 2016 and 2015	<u>19,525,446</u>	<u>97,627</u>

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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### (b) Share premium

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

### 26 OTHER RESERVES

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Fair value reserve	173,514	216,090	173,514	216,090
Foreign currency translation reserve	(31,743)	(24,871)	-	-
<b>Total</b>	<b><u>141,771</u></b>	<b><u>191,219</u></b>	<b><u>173,514</u></b>	<b><u>216,090</u></b>

#### (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.

## Notes to the financial statements - continued

### 27 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Cylinder deposits	181,967	182,398	152,191	149,180
Trade payables	87,614	167,607	79,533	151,321
Amounts due to related companies (Note 32(c))	63,546	72,803	51,011	70,262
Accruals and other payables	192,726	184,042	191,008	177,396
<b>Total</b>	<b>525,853</b>	<b>606,850</b>	<b>473,743</b>	<b>548,159</b>

### 28 CASH GENERATED FROM OPERATIONS

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

	Note	Group		Company	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Profit before tax		190,682	221,721	194,384	221,489
Adjustments for:					
Depreciation	14	70,309	70,186	63,824	62,265
Amortisation of intangible assets	15	534	1,291	454	1,211
Operating lease charges	19	105	97	105	97
Profit on sale of property and equipment	7	(1,741)	(3,228)	(1,623)	(1,978)
Effect of foreign currency translations	8 (a)	1,748	3,694	-	-
Interest income		(58,992)	(63,948)	(51,059)	(54,842)
Dividend income	9 (a)	(10,395)	(10,395)	(10,395)	(10,395)
Unrealised profit on closing stock		2,235	1,815		-
Changes in working capital:					
Trade and other receivables		39,317	(36,923)	52,341	(84,982)
Inventories		17,224	24,884	26,920	17,386
Trade and other payables		(80,997)	53,718	(74,416)	63,765
Interest receivable		(5,129)	1,721	(3,449)	1,682
<b>Cash generated from operating activities</b>		<b>164,900</b>	<b>264,633</b>	<b>197,086</b>	<b>215,698</b>

### 29 CONTINGENT LIABILITIES

At 31 December, 2016, the Company's Bankers had issued various guarantees in favour of third parties (primarily the Company's public sector customers) amounting KShs 2,650,148 (31 December, 2015: KShs 13,245,728).

There are certain pending tax and legal claims brought against the Company as at 31 December, 2016 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 claims will not give rise to any significant loss beyond the amounts already provided in these financial statements.

### 30 CAPITAL COMMITMENTS

At 31 December, 2016, the Group had capital commitments of KShs 60,589,167 (2015: KShs 65,118,311).

## Notes to the financial statements - continued

### 31 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASE

The Group leases certain of its premises under operating leases with an option to renew the lease after expiry date. Lease payments are increased periodically to reflect market rentals.

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Not later than one year	10,167	8,537	1,000	1,000
Between 1 and 5 years	8,938	8,937	4,000	4,000
Longer than five years	27,000	27,000	27,000	27,000
<b>Total</b>	<b>46,105</b>	<b>44,474</b>	<b>32,000</b>	<b>32,000</b>

Amounts expensed during the year are disclosed in Note 10.

### 32 RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Linde A.G., a company incorporated in Germany. There are other companies that are related to BOC Kenya Limited through common shareholdings or common Directorships.

The following transactions were carried out with related parties:

#### (a) Purchase of goods and services

	2016 KShs'000	2015 KShs'000
<b>Group</b>		
BOC Group plc	15,325	21,626
African Oxygen Limited	73,517	89,809
Cryostar France	8,176	6,070
<b>Total</b>	<b>97,018</b>	<b>117,505</b>
<b>Company</b>		
BOC Group plc	15,325	21,626
African Oxygen Limited	61,527	72,614
Cryostar France	8,176	6,070
Afrox Zambia Limited	-	43
<b>Total</b>	<b>85,028</b>	<b>100,353</b>

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.

## Notes to the financial statements - continued

### 32 RELATED PARTY TRANSACTIONS - continued

#### (b) Sales to subsidiaries

	Company	
	2016 KShs'000	2015 KShs'000
<i>Sales to subsidiaries:</i>		
BOC Tanzania Limited	73,467	60,022
BOC Uganda Limited	<u>17,767</u>	<u>75,221</u>
<b>Total</b>	<b><u>91,234</u></b>	<b><u>135,243</u></b>

#### (c) Outstanding balances included in receivables

	Company	
	2016 KShs'000	2015 KShs'000
<i>Due to BOC Kenya Limited:</i>		
BOC Tanzania Limited	38,908	42,819
BOC Uganda Limited	<u>28,483</u>	<u>30,312</u>
<b>Total</b>	<b><u>67,391</u></b>	<b><u>73,131</u></b>

#### (d) Outstanding balances arising from the purchase of goods and services

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
BOC Group plc	26,659	49,586	26,659	49,585
African Oxygen Limited	33,889	20,126	21,354	17,586
Linde A.G	<u>2,998</u>	<u>3,091</u>	<u>2,998</u>	<u>3,091</u>
<b>Total</b>	<b><u>63,546</u></b>	<b><u>72,803</u></b>	<b><u>51,011</u></b>	<b><u>70,262</u></b>

#### (e) Key management compensation

Group and Company	2016 KShs'000	2015 KShs'000
Salaries and short term benefits	<u>45,400</u>	<u>40,576</u>

Key management compensation relates to salary and benefits paid to senior members of management excluding executive directors (whose remuneration is disclosed below).

## Notes to the financial statements - *continued*

### 32 RELATED PARTY TRANSACTIONS - *continued*

#### (f) Directors' remuneration

	Group		Company	
	2016 KShs'000	2015	2016 KShs'000	2015 KShs'000
Fees	6,916	5,454	6,295	4,695
Salaries and short term benefits	38,214	34,318	38,214	34,318
Provident fund contributions	<u>3,068</u>	<u>3,432</u>	<u>3,068</u>	<u>3,432</u>
<b>Total</b>	<b><u>48,198</u></b>	<b><u>43,204</u></b>	<b><u>47,577</u></b>	<b><u>42,445</u></b>

#### (g) Dividends paid

	2016 KShs'000	2015 KShs'000
<b>Group and Company</b>		
BOC Group Plc	<u>66,381</u>	<u>66,381</u>

### 33 SUBSEQUENT EVENTS

Since the end of the financial period, no matter or circumstances have occurred that have or may significantly affect the operations or the state of affairs of the Group in subsequent financial years.

# FORM OF PROXY

To:

The Secretary,  
 BOC Kenya Limited,  
 P.O. Box 18010-00500  
 Nairobi

I/We .....  
 .....Of P.O. Box .....

being member/members of BOC Kenya Limited appoint:

.....  
 or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on **21 June, 2017 at 11:00am** at the Company's Head Office and factory site, Kitui Road, Industrial Area, or at any adjournment thereof.

As witness my/our hand/s this .....day of.....2017

.....  
 (Signature)

## NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. Such proxy need not be a member of the Company.
2. Shareholders who do not propose to be at the Annual General Meeting and intend to appoint a proxy are requested to do the following:
  - **Complete this form and attach a copy of your National ID and a copy of the National ID of the proxy appointed.**
  - Return the form (plus copies of the National ID's) to the Company's Registrar, Custody & Registrars, 6th Floor, Bruce House, Standard Street, P.O. Box 8484-00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 19 June, 2017.
3. If the appointer is a corporation, this Form of Proxy must be under its Common Seal or under the hand of the officer or attorney duly authorised in that behalf.
4. Duly signed proxy forms together with ID copies may also be emailed to proxy@candrgroup.co.ke in PDF format.



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