

**EAST AFRICAN BREWERIES LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**AT**

**30 JUNE 2006**

# EAST AFRICAN BREWERIES LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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# EAST AFRICAN BREWERIES LIMITED

## DIRECTORS, OFFICERS AND ADMINISTRATION

### DIRECTORS

JG Kiereini	Group Chairman
N Blazquez*	Group Deputy Chairman (Appointed 25 August 2005)
GK Mahinda	Group Managing Director
C Caldwell*	Group Commercial Director (Appointed 19 October 2005)
R Kemoli	
A Ndegwa	
WS Kalema**	
EK Mwaniki	
BA Savage***	
W Mugane	
W Kiboro	(Appointed 25 August 2005)
DHC Hampshire*	(Resigned 25 August 2005)

\*British \*\*Ugandan \*\*\*Nigerian

### SECRETARY

MN Oluoch-Olunya (Mrs)  
Tusker House  
Ruaraka  
PO Box 30161  
00100 Nairobi, GPO

### AUDITORS

KPMG Kenya  
16<sup>th</sup> Floor, Lonrho House  
Standard Street  
PO Box 40612  
00100 Nairobi, GPO

### ADVOCATES

Kaplan and Stratton Advocates  
Williamson House  
4<sup>th</sup> Ngong Avenue  
PO Box 40111  
00100 Nairobi, GPO

### SHARE REGISTRARS

Barclays Advisory & Registrar Services Limited  
1<sup>st</sup> Floor, Bank House  
Moi Avenue  
PO Box 30120  
00100 Nairobi, GPO

## EAST AFRICAN BREWERIES LIMITED

### DIRECTORS, OFFICERS AND ADMINISTRATION (CONTINUED)

#### PRINCIPAL BANKERS

Standard Chartered Bank Kenya Limited  
Kenyatta Avenue Branch  
PO Box 30001  
00100 Nairobi, GPO

Commercial Bank of Africa Limited  
CBA Building  
Wabera/ Standard Street  
PO Box 30437  
00100 Nairobi, GPO

Citibank NA  
Citibank House  
Upper Hill Road  
PO Box 30711  
00100 Nairobi, GPO

Barclays Bank of Kenya Limited  
Barclays Plaza  
Loita Street  
PO Box 30120  
00100 Nairobi, GPO

#### REGISTERED OFFICE

East African Breweries Limited  
Corporate Centre  
Ruaraka  
PO Box 30161  
00100 Nairobi, GPO

#### SUBSTANTIAL SHAREHOLDINGS

The directors are aware of the following persons who held 1% or more of the issued share capital of the company:

#### List of 10 Largest Shareholders

	Name(s) and Address	Number of shares	%
1	Diageo Kenya Limited	282,181,950	42.82
2	Board of Trustees – NSSF	31,803,847	4.82
3	Diageo Holdings Netherlands B.V	30,301,075	4.59
4	Barclays (Kenya) Nominees Ltd Non resident a/c 9011	20,229,777	3.06
5	Guinness Overseas Limited	17,190,670	2.60
6	Mr Kanaksinh Karsandas Babla & Mr Sandip Kanaksinh Babla Barclays(Kenya)Nominees Ltd	13,193,091	2.00
7	Non resident a/c 9057	10,568,865	1.60
8	Barclays (Kenya) Nominees Ltd a/c 9326	10,540,295	1.59
9	Kenya Reinsurance Corporation (life fund investments)	9,126,740	1.38
10	Mr Kanaksinh Karsandas Babla & Mr Kusum Kanaksinh Babla	7,133,994	1.08
	<b>TOTAL NUMBER OF SHARES</b>	<b><u>432,270,304</u></b>	<b><u>65.54</u></b>

# EAST AFRICAN BREWERIES LIMITED

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2006, which disclose the state of affairs of the group and company.

### 1. **Activities**

East African Breweries Limited remains a holding company with subsidiaries involved in the marketing, brewing/manufacturing and selling of drinks, glass containers, malt and barley.

### 2. **Results**

The results for the year are set out on page 6.

### 3. **Dividends**

The directors recommend a final dividend of KShs 4.15 per ordinary share to be paid on or about 3 November 2006 to those members on the register at the close of business on 16 October 2006. This, together with the interim dividend of KShs 1.75 per ordinary share paid on or about 15 March 2006, brings the dividend for the year to KShs 5.90 per issued ordinary share (2005 – dividend per share KShs 4.50).

### 4. **Directors**

The directors who served since 1 July 2005 are set out on page 1.

### 5. **Auditors**

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

### 6. **Employees**

The directors are pleased, once again, to record their appreciation for the untiring efforts of all employees of the company and its subsidiaries.

### 7. **Approval of financial statements**

The financial statements were approved at a meeting of the directors held on 24 August 2006.

**BY ORDER OF THE BOARD**



**Secretary**

**Date:** 24 August 2006

EAST AFRICAN BREWERIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the group and the company as at the end of each financial year and of the operating results of the group for that year. It also requires the directors to ensure that the group and the company keep proper accounting records, which disclose with reasonable accuracy the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the company and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its continuing subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director

Date: 24 August 2006



**KPMG Kenya**  
**Certified Public Accountants**  
16th Floor, Lonrho House  
Standard Street  
PO Box 40612 00100 GPO  
Nairobi, Kenya

Telephone +254 20 2806000  
Fax +254 20 215695  
Email info@kpmg.co.ke  
Internet www.kpmg.co.ke

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EAST AFRICAN BREWERIES LIMITED**

We have audited the financial statements set out on pages 6 to 34 for the year ended 30 June 2006. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. The balance sheet of the Company is in agreement with the books of account.

### **Respective responsibilities of directors and independent auditors**

As stated on page 5, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the group and the company and of the group's operating results. Our responsibility is to express an opinion on the financial statements based on our audit.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the group and company's financial position at 30 June 2006 and of the group's operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

*KPMG Kenya*

**Date:** 24 August 2006

**EAST AFRICAN BREWERIES LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	2006 Shs'000	2005 Shs'000
Net revenue	4	20,906,885	19,186,425
Cost of sales		<u>( 7,895,833)</u>	<u>( 6,296,140)</u>
<b>Gross profit</b>		<b>13,011,052</b>	<b>12,890,285</b>
Other operating income	5	391,485	485,682
Distribution costs		<u>( 1,364,209)</u>	<u>( 1,073,885)</u>
Administrative expenses		<u>( 4,105,638)</u>	<u>( 4,805,842)</u>
<b>Operating profit</b>	6	<b>7,932,690</b>	<b>7,496,240</b>
Finance income	8	379,389	260,703
Finance costs	8	<u>( 37,499)</u>	<u>( 231,262)</u>
Share of associate's profit after tax		<u>762,826</u>	<u>697,690</u>
<b>Profit before reorganisation costs</b>		<b>9,037,406</b>	<b>8,223,371</b>
Reorganisation Costs		<u>( 460,357)</u>	<u>-</u>
<b>Profit before income tax</b>		<b>8,577,049</b>	<b>8,223,371</b>
Income tax expense	9	<u>( 2,167,007)</u>	<u>( 2,447,143)</u>
<b>Profit after income tax</b>		<b>6,410,042</b>	<b>5,776,228</b>
Minority interest		<u>( 1,017,554)</u>	<u>( 1,006,316)</u>
<b>Net profit attributable to the shareholders</b>		<b><u>5,392,488</u></b>	<b><u>4,769,912</u></b>
Earnings per share:			
– basic		8.18	7.24
– diluted		<u>8.18</u>	<u>7.24</u>

The notes set out on pages 13 to 34 form an integral part of these financial statements.

**EAST AFRICAN BREWERIES LIMITED**  
**CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006**

	Notes	2006	2005
		Shs'000	Restated Shs'000
<b>CAPITAL EMPLOYED (Pages 9 and 10)</b>			
Share capital	11	1,317,957	1,317,957
Share premium	11	1,959,100	1,959,100
Revaluation surplus	12	1,573,221	2,037,402
Retained earnings		8,967,173	7,298,201
Proposed dividends	10	2,734,762	1,976,937
Translation reserve		<u>339,317</u>	<u>666,575</u>
Total equity attributable to equity holders of the parent		16,891,530	15,256,172
Minority interest		<u>1,694,040</u>	<u>1,636,044</u>
Total equity		<u>18,585,570</u>	<u>16,892,216</u>
<b>Non-current liabilities</b>			
Deferred income tax	13	1,830,466	1,493,842
Provision for staff gratuity		<u>75,234</u>	<u>196,770</u>
		<u>1,905,700</u>	<u>1,690,612</u>
		<u>20,491,270</u>	<u>18,582,828</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14(a)	9,134,222	8,204,283
Prepaid operating lease rentals	15	32,830	33,430
Investment in associate company	16(a)	1,039,516	1,024,595
Other investments	16(c)	10,400	10,400
Goodwill	17(b)	648,664	648,664
Deferred income tax asset	13	<u>43,054</u>	<u>2,215</u>
		<u>10,908,686</u>	<u>9,923,587</u>
<b>Current assets</b>			
Inventories	19	4,048,068	3,335,227
Receivables and prepayments	20(a)	2,356,436	2,193,590
Income tax recoverable		562,333	35,946
Term deposits		6,101,583	6,357,252
Cash and bank balances		<u>804,591</u>	<u>779,817</u>
		<u>13,873,011</u>	<u>12,701,832</u>
<b>Current liabilities</b>			
Payables and accrued expenses	21(a)	4,116,858	3,615,555
Current income tax payable		52,924	240,345
Dividends payable		120,645	64,736
Bank overdraft		<u>121,955</u>	<u>121,955</u>
		<u>4,290,427</u>	<u>4,042,591</u>
<b>Net current assets</b>		<u>9,582,584</u>	<u>8,659,241</u>
		<u>20,491,270</u>	<u>18,582,828</u>

The financial statements on pages 6 to 34 were approved by the Board of Directors on 24 August 2006 and were signed on their behalf by:

Director: \_\_\_\_\_

Director: \_\_\_\_\_

The notes set out on pages 13 to 34 form an integral part of these financial statements.


# EAST AFRICAN BREWERIES LIMITED

## COMPANY BALANCE SHEET AT 30 JUNE 2006

	Notes	2006 Shs'000	2005 Shs'000
<b>CAPITAL EMPLOYED (Page 11)</b>			
Share capital	11	1,317,957	1,317,957
Share premium	11	1,959,100	1,959,100
Revaluation surplus	12	109,693	118,263
Retained earnings		7,462,757	6,155,473
Proposed dividends	10	<u>2,734,762</u>	<u>1,976,937</u>
Shareholders' funds		<u>13,584,269</u>	<u>11,527,730</u>
<b>Non-current liabilities</b>			
Deferred income tax liability	13	<u>-</u>	<u>8,582</u>
		<u>13,584,269</u>	<u>11,536,312</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14(b)	226,659	206,858
Prepaid operating lease rentals	15	1,859	1,891
Investment in subsidiaries	17(a)	4,324,783	4,324,783
Investment in associate company	16(b)	3,565,783	3,409,066
Deferred income tax asset	13	9,691	-
Other investments	16(c)	<u>10,400</u>	<u>10,400</u>
		<u>8,139,175</u>	<u>7,952,998</u>
<b>Current assets</b>			
Receivables and prepayments	20(b)	2,097,176	1,952,683
Current income tax recoverable		21,934	-
Term deposits		3,354,812	3,552,882
Cash and bank balances		<u>315,707</u>	<u>48,446</u>
		<u>5,789,629</u>	<u>5,554,011</u>
<b>Current liabilities</b>			
Payables and accrued expenses	21(b)	223,890	1,823,067
Dividends payable		120,645	64,736
Current income tax payable		<u>-</u>	<u>82,894</u>
		<u>344,535</u>	<u>1,970,697</u>
Net current assets		<u>5,445,094</u>	<u>3,583,314</u>
		<u>13,584,269</u>	<u>11,536,312</u>

The financial statements on pages 6 to 34 were approved by the Board of Directors on 24 August 2006 and were signed on their behalf by:

Director: 

Director: 

The notes set out on pages 13 to 34 form an integral part of these financial statements.

**EAST AFRICAN BREWERIES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Share capital Shs'000	Share premium Shs'000	Revaluation reserve Shs'000	Translation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000	Minority interest Shs'000	Total equity Shs'000
<b>2005:</b>									
<b>At 1 July 2004 as previously stated</b>	1,098,297	2,188,534	2,311,542	-	6,068,049	1,878,088	13,544,510	1,714,110	15,258,620
Prior year adjustment in respect of the defined benefit asset (Note 1)	-	-	-	-	( 90,461)	-	( 90,461)	( 22,614)	( 113,075)
Prior year adjustment in respect of exchange differences on translation of foreign subsidiaries/associates (Note 2)	-	( 274,140)	758,034	-	( 483,894)	-	-	-	-
<b>At July 2004 as restated</b>	1,098,297	2,188,534	2,037,402	758,034	5,493,694	1,878,088	13,454,049	1,691,496	15,145,545
Exchange differences on translation of foreign subsidiaries	-	-	-	(27,255)	-	-	( 27,255)	(400)	( 27,655)
Exchange differences on translation of foreign associate	-	-	-	(64,204)	-	-	( 64,204)	-	( 64,204)
Net profit for the year	-	-	-	-	4,769,912	-	4,769,912	1,006,316	5,776,228
Additional capital (Note 3)	219,660	( 229,434)	-	-	-	-	( 9,774)	-	( 9,774)
Dividend:									
- 2004 final paid	-	-	-	-	-	(1,878,088)	(1,878,088)	(1,061,368)	( 2,939,456)
- 2005 interim declared and paid	-	-	-	-	( 988,468)	-	( 988,468)	-	( 988,468)
- 2005 final proposed	-	-	-	-	(1,976,937)	1,976,937	-	-	-
<b>At 30 June 2005</b>	1,317,957	1,959,100	2,037,402	666,575	7,298,201	1,976,937	15,256,172	1,636,044	16,892,216

**Notes:**

1. The prior year adjustment in respect of the defined benefit asset relates to the transfer of the defined benefit asset to the defined contribution scheme, per Note 1(m(i)).
2. The translation reserve comprises the transfer of the cumulative foreign exchange differences arising from translation of financial statements of foreign operations.
3. Included in share premium movement above are expenses of Shs 9,774,421 including stamp duty relating to the bonus issue of shares in 2005.

The notes set out on pages 13 to 34 form an integral part of these financial statements.

**EAST AFRICAN BREWERIES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)**

	Share capital Shs'000	Share premium Shs'000	Revaluation reserve Shs'000	Translation reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000	Minority interest Shs'000	Total equity Shs'000
2006:									
At 1 July 2005 as previously stated	1,317,957	1,959,100	2,307,093	-	7,785,546	1,976,937	15,346,633	1,658,658	17,005,291
Prior year adjustment in respect the defined benefit asset (Note 1)	-	-	-	-	( 90,461)	-	( 90,461)	(22,614)	( 113,075)
Prior year adjustment in respect exchange differences on translation of foreign subsidiaries/associates (Note 2)	-	-	( 269,691)	666,575	( 396,884)	-	-	-	-
At 1 July 2005 as restated	1,317,957	1,959,100	2,037,402	666,575	7,298,201	1,976,937	15,256,172	1,636,044	16,892,216
Exchange differences on translation of foreign subsidiaries	-	-	-	(185,460)	-	-	( 185,460)	( 3,200)	( 188,660)
Net profit for the year	-	-	-	-	5,392,488	-	5,392,488	1,017,554	6,410,042
Exchange differences on translation of foreign associate	-	-	-	(141,798)	-	-	( 141,798)	-	( 141,798)
Impairment of property, plant and equipment	-	-	( 299,722)	-	-	-	( 299,722)	( 32,026)	( 331,748)
Revaluation reserve realised on disposal of assets	-	-	( 164,459)	-	164,459	-	-	-	-
Dividends:									
- 2005 final paid	-	-	-	-	-	(1,976,937)	(1,976,937)	(924,332)	( 2,901,269)
- 2006 interim declared and paid	-	-	-	-	(1,153,213)	-	(1,153,213)	-	( 1,153,213)
- 2006 final proposed	-	-	-	-	(2,734,762)	2,734,762	-	-	-
At 30 June 2006	1,317,957	1,959,100	1,573,221	339,317	8,967,173	2,734,762	16,891,530	1,694,040	18,585,570

**Notes:**

1. The prior year adjustment in respect of the defined benefit asset relates to the transfer of the defined benefit asset to the defined contribution scheme, per Note 1(m(i)).
2. The translation reserve comprises the transfer of the cumulative foreign exchange differences arising from translation of financial statements of foreign operations.

The notes set out on pages 13 to 34 form an integral part of these financial statements.

## EAST AFRICAN BREWERIES LIMITED

### COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At 1 July 2004	1,098,297	2,188,534	118,263	4,668,551	1,878,088	9,951,733
Bonus issue of shares	219,660	( 229,434)	-	-	-	( 9,774)
Profit for the year	-	-	-	4,452,327	-	4,452,327
Dividends:						
- Final for 2004 paid	-	-	-	-	(1,878,088)	(1,878,088)
- Interim for 2005 declared and paid	-	-	-	( 988,468)	-	( 988,468)
- Proposed final for 2005	-	-	-	(1,976,937)	1,976,937	-
<b>At 30 June 2005</b>	<b>1,317,957</b>	<b>1,959,100</b>	<b>118,263</b>	<b>6,155,473</b>	<b>1,976,937</b>	<b>11,527,730</b>
Profit for the year	-	-	-	5,186,689	-	5,186,689
Dividends:						
- Final for 2005 paid	-	-	-	-	(1,976,937)	(1,976,937)
- Interim for 2006 declared and paid	-	-	-	(1,153,213)	-	(1,153,213)
- Proposed final for 2006	-	-	-	(2,734,762)	2,734,762	-
Disposal of fixed assets	-	-	( 8,570)	8,570	-	-
<b>At 30 June 2006</b>	<b><u>1,317,957</u></b>	<b><u>1,959,100</u></b>	<b><u>109,693</u></b>	<b><u>7,462,757</u></b>	<b><u>2,734,762</u></b>	<b><u>13,584,269</u></b>

Included in share premium movement above are expenses of Shs 9,774,421 including stamp duty relating to the bonus issue of shares in 2005.

The notes set out on pages 13 to 34 form an integral part of these financial statements.

**EAST AFRICAN BREWERIES LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	2006 Shs'000	2005 Shs'000
<b>Operating activities</b>			
Cash generated from operations	25(a)	7,302,276	7,501,476
Interest received		379,389	260,703
Interest paid		( 24,458)	( 12,807)
Income tax paid		(2,560,964)	(1,674,227)
<b>Net cash generated from operating activities</b>		<b><u>5,096,243</u></b>	<b><u>6,075,145</u></b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	14	(2,105,317)	(1,223,487)
Proceeds from disposal of property, plant and equipment and prepaid operating lease rental		289,185	55,736
Dividends received from associate		609,522	763,231
Pre-acquisition dividends received from subsidiary		-	11,230
<b>Net cash used in investing activities</b>		<b><u>(1,206,610)</u></b>	<b><u>( 393,290)</u></b>
<b>Financing activities</b>			
Dividends paid to shareholders		(3,074,241)	(2,806,578)
Dividends paid to minority interest		( 924,332)	(1,061,368)
Bonus share issue costs		-	( 9,774)
<b>Net cash used in financing activities</b>		<b><u>(3,998,573)</u></b>	<b><u>(3,877,720)</u></b>
<b>Increase in cash and cash equivalents</b>		<b><u>( 108,940)</u></b>	<b><u>1,804,135</u></b>
<b>Movement in cash and cash equivalents</b>			
At 1 July		7,015,114	5,210,979
Increase		( 108,940)	1,804,135
<b>At 30 June</b>	25(b)	<b><u>6,906,174</u></b>	<b><u>7,015,114</u></b>

The notes set out on pages 13 to 34 form an integral part of these financial statements.

# EAST AFRICAN BREWERIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards and under the historical cost convention as modified by the revaluation of certain property, plant and equipment, and financial instruments carried at amortised cost.

All monetary figures appearing in the financial statements, unless otherwise indicated are stated in Kenya shillings (Shs).

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

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

#### (b) Consolidation principles

The consolidated financial statements include the company and its subsidiaries and associate made up to the end of the financial year. A listing of the major subsidiaries is set out on Note 17(a).

#### (c) Basis of consolidation

##### (i) *Subsidiaries*

Subsidiaries are those enterprises controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain the benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**(ii) Associates**

An associated company is that in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of the associated company on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. Consolidation adjustments are also made to ensure consistency with the group's accounting policies. At the company level, associates are recognised using the equity method.

**(d) Revenue recognition**

Sales of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

**(e) Foreign currencies**

**(i) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account in the year in which they arise.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

**(ii) Group companies**

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- iii. all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement 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.

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

All categories of property, plant and equipment are initially recorded at cost. Property, plant and equipment is subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Buildings	40 years or the unexpired period of the lease
Plant and machinery	5 – 33 years
Equipment and motor vehicles	4 – 5 years

Freehold land is not depreciated.

The residual value, if not insignificant, is reassessed annually.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

**(g) Intangible assets**

**(i) Computer software**

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 over their estimated useful lives (three to five years). These costs have been included under property, plant and equipment.

**(ii) Goodwill**

Goodwill arising on acquisition of subsidiaries and associates is stated at cost less accumulated impairment losses (Note (s)). At the balance sheet date, the group assesses the goodwill carried in the books for impairment.

**(h) Investment property**

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the company are classified as investment property under non-current assets. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in other operating income in the profit and loss account.

**(i) Other investments**

The company classifies its investments into available-for-sale investments and originated loans. The classification is dependent on the purpose for which the investments were acquired. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designations on a regular basis as follows:

Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

Non-equity investments purchased in the primary market (i.e. directly from the issuer) are classified as originated loans.

Purchases and sales of investments are recognised on the trade date, which is the date the company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value, whilst originated loans are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recorded in the profit and loss account in the year in which they arise and are included in other operating income.

**(j) 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 charged to the profit and loss account on a straight-line basis over the period of the lease.

**(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(l) **Receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(m) **Employee benefits**

(i) *Retirement benefit obligations*

The group operates defined contribution retirement benefit schemes for some of its employees. The defined benefit scheme that existed in the prior years was transferred to the group defined contribution retirement benefit scheme. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the group and employees. The group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The group's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate. The company has no further obligation once the contributions have been paid.

For the defined benefit scheme, the pension costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses are recognised over the average remaining service lives of employees.

(ii) *Other entitlements*

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

(iii) *Equity compensation benefits*

The stock option programme allows Group employees to acquire shares of the company.

(iv) *Staff gratuity*

On normal retirement after completion of continuous and meritorious service with the group, both management and unionisable staff are entitled to 30 days pay for each completed year of service, after first completing 3 years of service, by way of gratuity, based on wage or salary at the time of such resignation or termination of services. A provision for the service gratuity is recognised in the financial statements as it accrues to each employee.

**(n) Income tax**

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the existing tax legislation.

Deferred income 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 income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income 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.

**(o) Dividends**

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

**(p) Discontinuing operations**

A discontinuing operation is a clearly distinguishable component of the group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

**(q) Segmental reporting**

Segment information is presented in respect of the group's geographical segments, which is the primary format and is based on the countries in which the group operates. The group has no distinguishable significant business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arms length basis.

**(r) Provisions**

Provisions are recognised when the company and group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(t) Impairment**

The carrying amounts of the group's assets other than stocks (Note (j)) and deferred tax (Note (m)) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

**(i) Calculation of recoverable amount**

The recoverable amount of the group's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

**(iii) Reversals of impairment**

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset.

**(u) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, bank balances, and deposits held at call with the banks net of bank overdrafts.

(v) **Comparatives**

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

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

### 3. SEGMENTAL REPORTING

	Kenya		Uganda		Tanzania		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
External sales	16,499,418	15,431,447	4,407,467	3,754,978	-	-	-	-	20,906,885	19,186,425
Inter segment sales	2,065,183	1,914,858	-	-	-	-	(2,065,183)	(1,914,858)	-	-
<b>Total sales</b>	<b>18,564,601</b>	<b>17,346,305</b>	<b>4,407,467</b>	<b>3,754,978</b>	-	-	<b>(2,065,183)</b>	<b>(1,914,858)</b>	<b>20,906,885</b>	<b>19,186,425</b>
Segment profit from operations	6,956,613	6,866,155	976,077	630,085	-	-	-	-	7,932,690	7,496,240
Net finance income/costs	309,502	4,587	32,388	24,854	-	-	-	-	341,890	29,441
Share of associate profits	-	-	-	-	762,826	697,690	-	-	762,826	697,690
<b>Profit before reorganisation costs and tax</b>	<b>7,266,115</b>	<b>6,870,742</b>	<b>1,008,465</b>	<b>654,939</b>	<b>762,826</b>	<b>697,690</b>	-	-	<b>9,037,406</b>	<b>8,223,371</b>
Reorganisation costs	(408,430)	-	(51,927)	-	-	-	-	-	(460,357)	-
Income tax expense	(1,867,329)	(2,094,473)	(299,678)	(352,670)	-	-	-	-	(2,167,007)	(2,447,143)
<b>Segment results</b>	<b>4,990,356</b>	<b>4,776,269</b>	<b>656,860</b>	<b>302,269</b>	<b>762,826</b>	<b>697,690</b>	-	-	<b>6,410,042</b>	<b>5,776,228</b>
Minority results	-	-	-	-	-	-	-	-	(1,017,554)	(1,006,316)
<b>Net profit for the year</b>	<b>5,392,488</b>	<b>4,769,912</b>								
<b>OTHER INFORMATION</b>										
Segment assets	21,942,519	19,743,599	2,839,178	2,994,895	-	-	-	-	24,781,697	22,625,419
Segment liabilities	4,570,885	4,572,960	1,625,242	1,160,243	-	-	-	-	6,196,127	5,733,203
Capital expenditure	1,890,452	811,546	214,865	411,941	-	-	-	-	2,105,317	1,223,487
Depreciation expense	483,824	645,023	143,606	168,830	-	-	-	-	627,429	813,853
Impaired assets written down through reserves and profit and loss	205,475	1,110	-	-	-	-	-	-	205,475	1,110

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Segment revenue is based on the geographical location of both customers and assets.

	2006 Shs'000	2005 Shs'000
<b>4. ANALYSIS OF REVENUE</b>		
Gross sales	37,449,324	34,677,779
Indirect taxes	<u>(16,542,439)</u>	<u>(15,491,354)</u>
	<b><u>20,906,885</u></b>	<b><u>19,186,425</u></b>
<b>5. OTHER OPERATING INCOME</b>		
Gain on disposal of property, plant and equipment	105,605	12,890
Royalty income from associate	62,067	75,639
Rental income	17,542	22,200
Sale of by products and scrap items	135,082	49,930
Other	<u>71,189</u>	<u>325,023</u>
	<b><u>391,485</u></b>	<b><u>485,682</u></b>
<b>6. OPERATING PROFIT</b>		
The following items have been charged/(credited) in arriving at operating profit:		
Depreciation on property, plant and equipment (Note 14)	627,429	813,853
Profit on disposal of property, plant and equipment	( 105,605)	( 12,890)
Operating lease rentals	389	386
Staff costs (Note 7)	2,176,287	2,058,289
Auditors' remuneration	<u>12,471</u>	<u>11,991</u>
<b>7. STAFF COSTS</b>		
The following items are included within staff costs:		
Salaries and wages	1,792,535	1,611,744
Defined contribution scheme	26,961	38,754
Defined benefit scheme	19	19,713
National Social Security Fund	29,384	26,989
Staff gratuity	-	100,822
Other	<u>327,388</u>	<u>260,267</u>
	<b><u>2,176,287</u></b>	<b><u>2,058,289</u></b>

	2006 Shs'000	2005 Shs'000
<b>8. FINANCE INCOME/(COSTS)</b>		
Interest income	<u>379,389</u>	<u>260,703</u>
Net foreign exchange (losses)/gains	( 13,041)	( 218,455)
Interest expense	( 24,458)	( 12,807)
	( 37,499)	( 231,262)
<b>Net finance income</b>	<u><b>341,890</b></u>	<u><b>29,441</b></u>

**9. INCOME TAX**

<b>Income tax</b>		
Current income tax	1,902,331	2,061,144
Prior year (over)/under provision	( 55,175)	<u>98,362</u>
	<u>1,847,156</u>	<u>2,159,506</u>
<b>Deferred tax</b>		
Current year	425,832	286,213
Prior year (over)/under provision	( 105,981)	<u>1,424</u>
	<u>319,851</u>	<u>287,637</u>
<b>Income tax expense</b>	<u><b>2,167,007</b></u>	<u><b>2,447,143</b></u>

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

	2006 Shs'000	2005 Shs'000
<b>Profit before income tax</b>	<u><b>8,577,049</b></u>	<u><b>8,223,371</b></u>
Tax calculated at the statutory income tax rate of 30% (2005 – 30%)	2,573,115	2,467,011
Tax effect of:		
Expenses not deductible for tax purposes/income not taxable (	16,113)	40,733
Effect of share of associate profit	( 228,839)	( 211,994)
Operations in foreign jurisdictions	-	50,982
(Over)/under provision in prior year – income tax	( 55,175)	98,362
(Over)/under provision in prior year – deferred tax	( 105,981)	<u>1,424</u>
<b>Income tax expense</b>	<u><b>2,167,007</b></u>	<u><b>2,447,143</b></u>

**10. DIVIDENDS PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting.

A final dividend in respect of the year ended 30 June 2006 of Shs 4.15 per share amounting to a total of Shs 2,734,762,000 has been proposed. During the year an interim dividend of Shs 1.75 per share, amounting to a total of Shs 1,153,213,000 was paid. The total dividend for the year is therefore Shs 5.90 per share (2005: Shs 4.50), amounting to a total of Shs 3,887,975,000 (2005: Shs 2,965,423,000).

Payment of dividends is subject to withholding tax at a rate of either 0%, 5% or 10% depending on the residence of the respective shareholders.

**11. SHARE CAPITAL**

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 July 2005 and 30 June 2006	<u>658,979</u>	<u>1,317,957</u>	<u>1,959,100</u>

The total authorised number of ordinary shares is 1,000,000,000 with a par value of Shs 2 per share. All issued shares are fully paid.

**12. REVALUATION SURPLUS**

The revaluation surplus represents the surplus on the revaluation of plant, property and equipment, freehold land and buildings net of deferred income tax and is non-distributable.

**13. DEFERRED INCOME TAX**

Deferred income tax is calculated using the enacted income tax rate of 30% (2005: 30%). The movement in the deferred income tax account is as follows:

Group	2006 Shs'000	2005 Shs'000
At 1 July 2005 and 2004	1,491,627	1,197,412
Charge to profit and loss account (Note 9)		
- Current year	425,832	286,213
- Prior year (over)/under provision	( 105,981)	1,424
Currency changes	<u>( 24,066)</u>	<u>6,578</u>
<b>At 30 June</b>	<b><u>1,787,412</u></b>	<b><u>1,491,627</u></b>
Made up of:		
Deferred income tax assets	( 43,054)	( 2,215)
Deferred income tax liabilities	<u>1,830,466</u>	<u>1,493,842</u>
<b>Company</b>		
At 1 July 2005 and 2004	8,582	49,217
Credit to profit and loss account	<u>( 18,273)</u>	<u>( 40,635)</u>
<b>At 30 June</b>	<b><u>( 9,691)</u></b>	<b><u>8,582</u></b>

### 13. DEFERRED INCOME TAX (Continued)

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

Group	1.7.2005	Prior year	Charged/	Currency	30.6.2006
	Shs'000	under/(over) provision Shs'000	(credited) to P/L Shs'000	changes Shs'000	Shs'000
<b>Deferred income tax liabilities</b>					
Property, plant and equipment	1,658,130	22,861	352,400	-	2,033,391
Unrealised exchange gain	( 64,901)	-	64,984	-	83
Tax losses carried forward	( 51,397)	-	-	-	( 51,397)
Provisions	( 47,990)	( 89,355)	( 14,266)	-	( 151,611)
	<u>1,493,842</u>	<u>( 66,494)</u>	<u>403,118</u>	<u>-</u>	<u>1,830,466</u>
<b>Deferred income tax assets</b>					
Property, plant and equipment:	66,501	36,309	121,468	(24,066)	200,212
Tax losses carried forward	( 48,264)	( 29,639)	( 78,291)	-	( 156,194)
Unrealised exchange gain	3,323	-	( 212)	-	3,111
Provisions	( 23,775)	( 46,157)	( 20,251)	-	( 90,183)
	<u>( 2,215)</u>	<u>( 39,487)</u>	<u>22,714</u>	<u>(24,066)</u>	<u>( 43,054)</u>
<b>Net deferred income tax liability</b>	<u><b>1,491,627</b></u>	<u><b>(105,981)</b></u>	<u><b>425,832</b></u>	<u><b>(24,066)</b></u>	<u><b>1,787,412</b></u>

A deferred tax asset of Shs 376,746,963 (2005 – Shs 375,002,000) associated with a subsidiary, Castle Brewing Kenya Limited, has not been recognised in the balance sheet as the directors do not expect the temporary difference to reverse in the foreseeable future.

Company	1.7.2005	Prior year	Charged/	Currency	30.6.2006
	Shs'000	over provision Shs'000	(credited) to P/L Shs'000	changes Shs'000	Shs'000
<b>Deferred income tax liabilities/(assets)</b>					
Property, plant and equipment	40,969	(199)	(8,875)	-	31,895
Provisions	( 4,051)	-	19,137	-	15,086
Unrealised exchange losses	(28,336)	-	(28,336)	-	(56,672)
	<u>(32,387)</u>	<u>-</u>	<u>( 9,199)</u>	<u>-</u>	<u>(41,586)</u>
<b>Net deferred income tax liabilities/(assets)</b>	<u><b>8,592</b></u>	<u><b>(199)</b></u>	<u><b>(19,074)</b></u>	<u><b>-</b></u>	<u><b>( 9,691)</b></u>

14. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Freehold property Shs'000	Leasehold buildings Shs'000	Plant & equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
<b>Cost or valuation</b>						
At 1 July 2005	1,713,278	1,393,080	9,034,580	368,082	381,155	12,890,175
Exchange differences	-	( 45,480)	( 192,695)	-	( 4,396)	( 242,571)
Additions	-	568	81,773	-	2,022,976	2,105,317
Transfers	-	29,693	2,044,870	-	(2,074,563)	-
Disposals	( 148,800)	( 24,478)	( 35,638)	(113,653)	-	( 322,569)
Eliminated on impairment	( 188,326)	( 9,699)	( 200,918)	-	-	( 398,943)
<b>At 30 June 2006</b>	<b>1,376,152</b>	<b>1,343,684</b>	<b>10,731,972</b>	<b>254,429</b>	<b>325,172</b>	<b>14,031,409</b>
<b>Depreciation</b>						
At 1 July 2005	34,531	114,017	4,236,266	301,078	-	4,685,892
Exchange differences	-	( 8,503)	( 74,963)	-	-	( 83,466)
Charge for the year	43,775	23,858	559,712	84	-	627,429
On disposals	-	( 2,993)	( 22,558)	(113,649)	-	( 139,200)
On impairment	( 45,332)	( 867)	( 147,269)	-	-	( 193,468)
<b>At 30 June 2006</b>	<b>32,974</b>	<b>125,512</b>	<b>4,551,188</b>	<b>187,513</b>		<b>4,897,187</b>
<b>Net book amount</b>						
At 30 June 2006	<u>1,343,178</u>	<u>1,218,172</u>	<u>6,180,784</u>	<u>66,916</u>	<u>325,172</u>	<u>9,134,222</u>
At 30 June 2005	<u>1,678,747</u>	<u>1,279,063</u>	<u>4,798,314</u>	<u>67,004</u>	<u>381,155</u>	<u>8,204,283</u>

Management reviewed the useful lives of some of the group's operating assets during the year resulting to minor adjustments in depreciation rates in line with Diageo Plc group depreciation policies.

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Leasehold buildings Shs'000	Plant and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
<b>Cost or valuation</b>				
At 1 July 2005	165,500	198,838	-	364,338
Intercompany transfers	-	4,941	-	4,941
Additions	-	12,807	54,460	67,267
Disposals	( 11,000)	( 2,952)	-	( 13,952)
At 30 June 2006	<u>154,500</u>	<u>213,634</u>	<u>54,460</u>	<u>422,594</u>
<b>Depreciation</b>				
At 1 July 2005	3,879	153,601	-	157,480
Charge for the year	4,901	32,558	-	37,459
Inter company transfers	-	4,342	-	4,342
Disposals	( 395)	( 2,951)	-	( 3,346)
At 30 June 2006	<u>8,385</u>	<u>187,550</u>	<u>-</u>	<u>195,935</u>
<b>Net book amount</b>				
At 30 June 2006	<u>146,115</u>	<u>26,084</u>	<u>54,460</u>	<u>226,659</u>
At 30 June 2005	<u>161,621</u>	<u>45,237</u>	<u>-</u>	<u>206,858</u>

- (c) In 2004, Knight Frank (Kenya) Limited professionally valued the group's land and buildings in Kenya on the existing use basis. The resulting surplus was credited to a revaluation surplus account in June 2004. The valuations and appraisals were carried out in accordance with RICS Appraisal and Valuation manual ("The Red Book") and were based on expected use. The land and buildings in Uganda is still carried at the professional valuation of 1998 on the open market value for existing use. Other items of property, plant and equipment were revalued by Lloyd and Masika Limited on the basis of open market value for existing use as at 30 June 1996.

As at 30 June 2006, there were no assets pledged by the group to secure liabilities.

In the opinion of the directors, there is no impairment of property, plant and equipment.

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

Group	Freehold properties Shs'000	Leasehold buildings Shs'000	Plant and equipment Shs'000	Motor vehicles Shs'000	Total Shs'000
Cost	668,984	817,260	11,260,142	142,392	12,888,778
Accumulated depreciation	(149,354)	(146,897)	(4,565,901)	(142,379)	(5,004,531)
<b>Net book amount</b>					
At 30 June 2006	<u>519,630</u>	<u>670,363</u>	<u>6,694,241</u>	<u>13</u>	<u>7,884,247</u>
At 30 June 2005	<u>439,938</u>	<u>598,229</u>	<u>4,158,843</u>	<u>37,170</u>	<u>5,234,180</u>

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Continued

Company	Leasehold buildings Shs'000	Plant and equipment Shs'000	Capital Work in progress Shs'000	Total Shs'000
Cost	1,000	314,645	54,460	370,105
Accumulated depreciation	-	288,562	-	288,562
<b>Net book amount</b>				
At 30 June 2006	<u>1,000</u>	<u>26,083</u>	<u>54,460</u>	<u>81,543</u>
At 30 June 2005	<u>1,000</u>	<u>44,796</u>	-	<u>45,796</u>

15. LEASES

Prepaid operating lease rentals

Leases of land have been classified as operating leases.

	2006 Shs'000	2005 Shs'000
<b>(a) Group</b>		
Cost		
At 1 July 2005 and 1 July 2004	38,882	38,882
Disposal	( 211)	-
	<u>38,671</u>	<u>38,882</u>
<b>Amortisation</b>		
At 1 July 2005 and 2004	( 5,452)	( 5,066)
Amortisation for the year	( 389)	( 386)
	<u>( 5,841)</u>	<u>( 5,452)</u>
At 30 June	<u>32,830</u>	<u>33,430</u>
<b>(b) Company</b>		
Cost		
At 1 July 2005 and 1 July 2004	<u>2,250</u>	<u>2,250</u>
<b>Amortisation</b>		
At 1 July 2005	( 359)	( 328)
Amortisation for the year	( 32)	( 31)
	<u>( 391)</u>	<u>( 359)</u>
At 30 June	<u>1,859</u>	<u>1,891</u>

## 16. INVESTMENTS IN ASSOCIATES

### (a) Group

	Effective interest	2006 Shs'000	2005 Shs'000
Tanzania Breweries Limited	20%	<u>1,039,516</u>	<u>1,024,595</u>

The above represents the Group share of net assets of the associated company.

### (b) Company

	2006 Shs'000	2005 Shs'000
Tanzania Breweries Limited (58,985,693 ordinary shares of TShs 100 each)	<u>3,565,783</u>	<u>3,409,066</u>

Effective 12 December 2002, the company purchased 20% of the issued share capital of Tanzania Breweries Limited, which has been accounted for on an equity basis.

### (c) Other investments (group and company)

#### Unquoted: at cost

4,000 ordinary shares (representing 20%) in Sen-Tech Limited	400	400
20% investment in Challenge Fund Limited who in turn have subscribed to 50% in Central Depository and Settlement Corporation Limited	<u>10,000</u>	<u>10,000</u>
	<u>10,400</u>	<u>10,400</u>

There are no material differences between fair value and cost for these investments.

## 17. INVESTMENTS IN SUBSIDIARIES

### (a) Investments in subsidiaries

	Effective interest	2006 Shs'000	2005 Shs'000
At cost:			
Kenya Breweries Limited	80%	1,806,847	1,806,847
Salopia Limited	100%	200	200
Allsopps (EA) Sales Limited	100%	2	2
East African Breweries (Mauritius) Limited	100%	389	389
Central Glass Industries Limited	100%	790,288	790,288
Uganda Breweries Limited	98.20%	687,647	687,647
International Distillers Uganda Limited	100%	<u>300,000</u>	<u>300,000</u>
East African Maltings Limited (Formerly Kenya Maltings Limited)	100%	-	-
UDV (Kenya) Limited	46.32%	589,410	589,410
Castle Brewing Kenya Limited	100%	<u>150,000</u>	<u>150,000</u>
		<u>4,324,783</u>	<u>4,324,783</u>

## 17. INVESTMENTS IN SUBSIDIARIES (Continued)

### (b) Goodwill

	UBL Shs'000	CBKL Shs'000	TBL Shs'000	UDV(K) Shs'000	IDU Shs'000	Total Shs'000
<b>Cost</b>						
At 1 July 2005 and 2004	116,415	334,249	2,129,421	461,662	260,324	3,302,071
<b>Amortisation</b>						
At 1 July 2005 and 30 June 2006	116,415	334,249	2,129,421	46,166	27,156	2,653,407
<b>Net book amount</b>						
At 30 June 2005 and 2006	-	-	-	415,496	233,168	648,664

The goodwill represents the excess of cost of acquisitions over the fair value of identifiable assets and liabilities of the respective companies.

## 18. RETIREMENT BENEFIT OBLIGATIONS

### Defined benefit asset

The defined benefit schemes that existed in the prior years have been wound up and transferred to the group defined contribution retirement benefits.

### Equity compensation benefits

The directors, through an independent Trust, are empowered to grant share options to group employees. These options are granted for a maximum period of ten years and a minimum period of three years at a price determined by the market value ruling on the Nairobi Stock Exchange on the day preceding the day on which the options are granted. The shares to be exercised within this Trust have been issued directly through the company and also purchased at the stock exchange.

### Executive share option scheme

Movements in the number of share options held for the employees under the Executive Option Scheme are as follows:

	2006 Shs'000	2005 Shs'000
Outstanding at 1 July 2005 and 2004	1,219,705	256,871
Bonus issue of shares	-	51,374
	1,219,705	308,245
Additional shares as a result of share split	-	1,232,980
	1,219,705	1,541,225
Granted during the year	136,988	128,760
Lapsed	( 9,185)	-
Exercised	( 288,495)	( 450,280)
<b>Outstanding at 30 June</b>	<b>1,059,013</b>	<b>1,219,705</b>
<b>Exercise price per share – KShs</b>	<b>20.03</b>	<b>12.63</b>

Options may be exercised at prices ranging between KShs 14.79 and KShs 102.88.

## 18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

### Employee Share Save Scheme

As at 30 June 2006, the Trust's obligation to members under the employee share save scheme stood at 1,594,345 shares (2005 – 1,637,900). During the year 31,550 (2005 – 50,415) shares were exercised by employees. The exercise price per share is Shs 12.13 (2005 – Shs 12.13).

	2006 Shs'000	2005 Shs'000
<b>19. INVENTORIES</b>		
Group		
Raw materials	1,645,025	1,278,403
Consumables	1,587,555	1,267,622
Finished goods	635,794	753,454
Goods in transit	<u>179,694</u>	<u>35,748</u>
	<b><u>4,048,068</u></b>	<b><u>3,335,227</u></b>
<b>20. RECEIVABLES AND PREPAYMENTS</b>		
(a) Group		
Trade receivables	1,058,381	1,303,183
Barley advances	74,121	174,508
Other receivables	1,011,883	487,924
Receivable from related parties (Note 26)	<u>212,051</u>	<u>227,975</u>
	<b><u>2,356,436</u></b>	<b><u>2,193,590</u></b>
(b) Company		
Other receivables	66,581	22,628
Receivable from related parties (Note 26)	<u>2,030,595</u>	<u>1,930,055</u>
	<b><u>2,097,176</u></b>	<b><u>1,952,683</u></b>
<b>21. PAYABLES AND ACCRUED EXPENSES</b>		
(a) Group		
Trade payables	1,262,168	789,832
VAT and excise duty payable	1,287,422	1,152,289
Other creditors	1,049,885	1,092,891
Payable to related parties (Note 26)	<u>517,383</u>	<u>580,543</u>
	<b><u>4,116,858</u></b>	<b><u>3,615,555</u></b>
(b) Company		
Other payables	92,225	457,672
Payable to related parties (Note 26)	<u>131,665</u>	<u>1,365,395</u>
	<b><u>223,890</u></b>	<b><u>1,823,067</u></b>

<b>22. CONTINGENT LIABILITIES – Group</b>		
	<b>2006</b>	<b>2005</b>
Contingent liabilities incurred in the ordinary course of business:	<b>Shs'000</b>	<b>Shs'000</b>
Guarantees in respect of bank advances to barley farmers	283,384	150,000
Pending legal cases	52,192	303,615
Other liabilities	<u>98,892</u>	<u>143,819</u>
	<b><u>434,468</u></b>	<b><u>597,434</u></b>

**23. COMMITMENTS**

**Capital commitments – Group**

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

	<b>2006</b>	<b>2005</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Contracted but not provided for	432,054	2,161,960
Authorised but not contracted for	<u>1,427,286</u>	<u>-</u>

**24. OPERATING LEASE COMMITMENTS**

**(a) Group leases as lessee**

Two subsidiaries in the Group (Kenya Breweries Limited and Uganda Breweries Limited) have entered into operating lease agreements for leasing of commercial and non-commercial vehicles. Lease payments cover principal rentals, maintenance fees, fleet management costs and insurance costs.

Future minimum lease payments under these operating leases are as follows:

	<b>2006</b>	<b>2005</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Not later than 1 year	393,573	197,587
Later than 1 year and not later than 5 years	<u>877,353</u>	<u>548,707</u>
	<b><u>1,270,926</u></b>	<b><u>746,294</u></b>

**(b) Group leases as lessor**

The group has entered into operating lease agreements for leasing part of its properties.

Future minimum lease receipts under these operating leases are as follows:

	<b>2006</b>	<b>2005</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Not later than 1 year	14,329	8,052
Later than 1 year and not later than 5 years	<u>21,494</u>	<u>13,795</u>
	<b><u>35,823</u></b>	<b><u>21,847</u></b>

## 25. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations	2006 Shs'000	2005 Shs'000
Profit before income tax	8,577,049	8,223,371
Adjustments for:		
Interest income (Note 8)	( 379,389)	( 260,703)
Income from associates	( 762,826)	( 697,690)
Interest expense (Note 8)	24,458	12,807
Depreciation (Note 14)	627,429	813,853
Amortisation of prepaid operating lease rentals	389	386
Exchange differences	( 57,036)	2,264
Profit on sale of property, plant and equipment and Prepaid operating lease rentals	( 105,605)	( 12,890)
Prior year reversal of impairment loss on property, plant and equipment	( 188,754)	-
Loss on impairment of property, plant and equipment	62,481	1,110
Write back of unclaimed dividends	-	( 189,029)
Net decrease in gratuity provisions	( 121,536)	( 196,852)
Changes in working capital:		
– receivables and prepayments	( 162,846)	( 189,250)
– inventories	( 712,841)	68,822
– payables and accrued expenses	<u>501,303</u>	<u>( 74,723)</u>
<b>Cash generated from operations</b>	<b><u>7,302,276</u></b>	<b><u>7,501,476</u></b>
<b>(b) Cash and cash equivalents</b>		
Term deposit	6,101,583	6,357,252
Cash and bank balances	804,591	779,817
Bank overdraft	<u>-</u>	<u>( 121,955)</u>
	<b><u>6,906,174</u></b>	<b><u>7,015,114</u></b>

## 26. RELATED PARTY TRANSACTIONS

The company is controlled by Diageo plc incorporated in the United Kingdom. There are other companies that are related to East African Breweries Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	2006 Shs'000	2005 Shs'000
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### (a) Sale of goods and services

Other related parties	<u>65,319</u>	<u>38,558</u>
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### (b) Purchase of goods and services

Parent company	1,501,843	39,760
Other related parties	<u>213,164</u>	<u>739,146</u>
	<b><u>1,715,007</u></b>	<b><u>778,906</u></b>

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

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances arising from sale and purchase of goods/services

	2006 Shs'000	2005 Shs'000
<i>(i) Group</i>		
Receivables from related parties	<u>212,051</u>	<u>227,975</u>
Payable to related parties	<u>517,383</u>	<u>580,543</u>
<i>(ii) Company</i>		
Receivables from subsidiaries	1,882,701	1,902,822
Receivables from related parties	<u>147,894</u>	<u>27,233</u>
Receivables from related parties	<u>2,030,595</u>	<u>1,930,055</u>
Payables to related parties	<u>131,665</u>	<u>1,365,395</u>
<b>(d) Directors' remuneration</b>		
<i>(i) Group</i>		
Fees for services as a director	11,984	15,504
Other emoluments	<u>194,124</u>	<u>172,818</u>
	<u>215,969</u>	<u>188,322</u>
<i>(ii) Company</i>		
Fees for services as a director	11,066	13,357
Other emoluments	<u>84,086</u>	<u>52,184</u>
	<u>95,152</u>	<u>65,721</u>