

EAST AFRICAN BREWERIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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Corporate Information

BOARD OF DIRECTORS

JG Kiereini
Group Chairman

DHC Hampshire*
Group Deputy Chairman

GK Mahinda
Group Managing Director

R Kemoli
A Ndegwa
WS Kalema**
EK Mwaniki
BA Savage***
W Mugane
JK Mwangi
PD Fullam****

(Resigned on 27 May 2005)
(Resigned 3 February 2005)

*British **Ugandan ***Nigerian ****Irish

SECRETARY

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

AUDITORS

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

ADVOCATES

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

SHARE REGISTRARS

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

Corporate Information (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

The directors submit their report together with the audited financial statements for the year ended 30 June 2005, which disclose the state of affairs of the group and company.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Shs 4,769,912,000 has been added to retained earnings.

During the year an interim dividend of Shs 1.50 per share (2004: Shs 0.625) was paid. The directors recommend the approval of a final dividend of Shs 3.00 per share (2004: Shs 2.845).

DIRECTORS

The directors since 1 July 2004 are set out on page 1.

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	43,203,720	6.55
3	Diageo Holdings Netherlands B.V	29,960,330	4.54
4	Barclays (Kenya) Nominees Ltd Non resident a/c 9011	24,814,046	3.76
5	Mr Kanaksinh Karsandas Balba & Mr Sandip Kanaksinh Babla	23,857,386	3.62
6	Guinness Overseas Limited	17,190,670	2.60
7	Barclays(Kenya)Nominees Ltd Non resident a/c 9057	10,568,865	1.60
8	Kenya Reinsurance corporation (life fund investments)	9,276,740	1.40
9	Barclays (Kenya)Nominees Ltd a/c 9002	7,645,320	1.16
10	Mr Kanaksinh Karsandas Babla & Mr Kusum Kanaksinh Babla	7,133,994	1.08
	TOTAL NUMBER OF SHARES	455,833,021	69.13

AUDIT COMMITTEE

In accordance with the requirements for companies listed on the Nairobi Stock Exchange, the company has an Audit Committee comprising non-executive members of the Board and other professionals, who are independent of the day to day management of the company's operations.

The Audit Committee deals with all matters relating to the financial statements and internal control systems of the company including dealing with the independent auditors.

DIRECTORS' CONFLICT OF INTEREST

Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. They are sensitised on the rules of insider trading and are required to report and register regularly any changes in their shareholding.

AUDITORS

The company's auditors, KPMG Kenya, continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board



SECRETARY

25 August 2005

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

25 August 2005



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

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

We have audited the financial statements set out on pages 7 to 38 for the year ended 30 June 2005. 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 2005 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: 25 August 2005


Consolidated profit and loss account

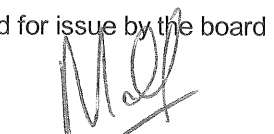
	Notes	2005 Shs'000	2004 Shs'000
Net revenue	4	19,186,425	16,592,335
Cost of sales		(6,296,140)	(5,105,206)
Gross profit		12,890,285	11,487,129
Other operating income	5	485,682	239,813
Distribution costs		(1,073,885)	(1,036,518)
Administrative expenses		(4,805,842)	(4,674,013)
Operating profit	6	7,496,240	6,016,411
Finance income	8	29,441	173,822
Share of associate's profit		1,073,370	851,664
Profit before income tax		8,599,051	7,041,897
Income tax expense	9	(2,822,823)	(2,293,984)
Profit after income tax		5,776,228	4,747,913
Minority interest		(1,006,316)	(898,855)
Net profit attributable to the shareholders		4,769,912	3,849,058
Earnings per share – basic		7.24	5.87
– diluted		7.24	5.84
Dividends:			
Interim dividends – paid in the year	10	988,468	408,863
Final proposed dividends	10	1,976,937	1,878,088
		2,965,405	2,286,951

Consolidated balance sheet

	Notes	2005 Shs'000	2004 Shs'000
CAPITAL EMPLOYED			
Share capital	11	1,317,957	1,098,297
Share premium	11	1,959,100	2,188,534
Revaluation surplus	12	2,307,093	2,311,542
Retained earnings		7,785,546	6,068,049
Proposed dividends	10	1,976,937	1,878,088
Shareholders' funds		15,346,633	13,544,510
Minority interest		1,658,658	1,714,110
Non-current liabilities			
Deferred income tax	13	1,493,842	1,212,380
Provision for staff gratuity		196,770	393,622
		1,690,612	1,606,002
		18,695,903	16,864,622
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	14(a)	8,204,283	7,774,472
Prepaid operating lease rentals	15	33,430	33,816
Investment in associate company	16(a)	1,024,595	1,164,357
Other investments	16(c)	10,400	10,400
Goodwill	17(b)	648,664	659,894
Deferred income tax asset	13	2,215	14,968
Defined benefit asset	18	115,924	115,924
		10,039,511	9,773,831
Current assets			
Inventories	19	3,335,227	3,490,100
Receivables and prepayments	20(a)	2,190,741	2,001,491
Income tax recoverable		35,946	282,304
Term deposits		6,357,252	2,466,353
Cash and bank balances		779,817	2,756,458
		12,698,983	10,996,706
Current liabilities			
Payables and accrued expenses	21(a)	3,615,555	3,700,296
Current income tax		240,345	-
Dividends payable		64,736	193,787
Bank overdraft		121,955	11,832
		4,042,591	3,905,915
Net current assets		8,656,392	7,090,791
		18,695,903	16,864,622

The financial statements on pages 7 to 38 were approved for issue by the board of directors on 25 August 2005 and signed on its behalf by:

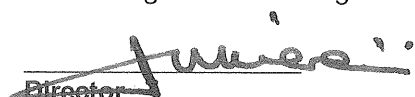

 Director

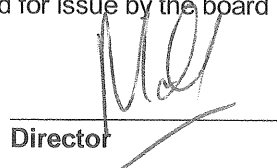

 Director

Company balance sheet

	Notes	2005 Shs'000	2004 Shs'000
CAPITAL EMPLOYED			
Share capital	11	1,317,957	1,098,297
Share premium	11	1,959,100	2,188,534
Revaluation surplus	12	118,263	118,263
Retained earnings		6,155,473	4,668,551
Proposed dividends	10	1,976,937	1,878,088
Shareholders' funds		11,527,730	9,951,733
Non-current liabilities			
Deferred income tax	13	8,582	49,217
Provision for staff gratuity		-	42,016
		8,582	91,233
		11,536,312	10,042,966
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	14(b)	206,858	217,766
Prepaid operating lease rentals	15	1,891	1,922
Investment in subsidiaries	17(a)	4,324,783	4,324,783
Investment in associate company	16(b)	3,409,066	3,484,622
Other investments	16(c)	10,400	10,400
		7,952,998	8,039,493
Current assets			
Receivables and prepayments	20(b)	1,952,683	2,084,938
Dividends receivable		-	66,667
Income tax recoverable		-	38,427
Term deposits		2,651,007	1,197,399
Cash and bank balances		48,446	91,120
		4,652,136	3,478,551
Current liabilities			
Payables and accrued expenses	21(b)	921,192	1,291,911
Dividends payable		64,736	183,167
Current income tax		82,894	-
		1,068,822	1,475,078
Net current assets		3,583,314	2,003,473
		11,536,312	10,042,966

The financial statements on pages 7 to 38 were approved for issue by the board of directors on 25 August 2005 and signed on its behalf by:


 Director


 Director

Consolidated statement of changes in equity

Year ended 30 June 2005

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At start of year	1,098,297	2,188,534	2,311,542	6,068,049	1,878,088	13,544,510
Exchange difference on translation of foreign subsidiaries	-	-	(4,449)	(22,806)	-	(27,255)
Exchange difference on translation of foreign associates	-	-	-	(64,204)	-	(64,204)
Profit for the year	-	-	-	4,769,912	-	4,769,912
Bonus issue of shares	219,660	(229,434)	-	-	-	(9,774)
Dividends:						
- Final for 2004 paid	-	-	-	-	(1,878,088)	(1,878,088)
- Interim for 2005 declared and paid	-	-	-	(988,468)	-	(988,468)
- Proposed final 2005	-	-	-	(1,976,937)	1,976,937	-
At end of year	1,317,957	1,959,100	2,307,093	7,785,546	1,976,937	15,346,633

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

Consolidated statement of changes in equity (continued)

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 30 June 2004						
At start of year	1,090,305	2,188,534	2,055,031	4,444,060	1,308,366	11,086,296
Share issue	7,992	-	-	-	-	7,992
Revaluation surplus on revaluation	-	-	298,732	-	-	298,732
Revaluation reserve reclassified as disposal and impairment of assets	-	-	(17,790)	284	-	(17,506)
Deferred income tax on revaluation surplus	-	-	(86,227)	-	-	(86,227)
Exchange differences on translation of foreign associate	-	-	-	(190,845)	-	(190,845)
Exchange differences on translation of foreign subsidiaries	-	-	61,796	252,443	-	314,239
Profit for the year	-	-	-	3,849,058	-	3,849,058
Dividends:						
- Final for 2003 paid	-	-	-	-	(1,308,366)	(1,308,366)
- Interim for 2004 declared and paid	-	-	-	(408,863)	-	(408,863)
- Proposed final for 2004	-	-	-	(1,878,088)	1,878,088	-
At end of year	1,098,297	2,188,534	2,311,542	6,068,049	1,878,088	13,544,510

Company statement of changes in equity

	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 30 June 2005						
At start of year	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 paid	-	-	-	(988,468)	-	(988,468)
- Proposed final for 2005	-	-	-	(1,976,937)	1,976,937	-
At end of year	1,317,957	1,959,100	118,263	6,155,473	1,976,937	11,527,730

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

Company statement of changes in equity (continued)

	Share capital Shs'000	Share Premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 30 June 2004						
At start of year	1,090,305	2,188,534	33,596	3,860,430	1,308,366	8,481,231
Share issue	7,992	-	-	-	-	7,992
Revaluation surplus on revaluation of property	-	-	128,688	-	-	128,688
Revaluation surplus realised on disposal of assets	-	-	(5,415)	-	-	(5,415)
Deferred income tax on revaluation	-	-	(38,606)	-	-	(38,606)
Profit for the year	-	-	-	3,095,072	-	3,095,072
Dividends:						
- Final for 2003 paid	-	-	-	-	(1,308,366)	(1,308,366)
- Interim for 2004 paid	-	-	-	(408,863)	-	(408,863)
- Proposed final for 2004	-	-	-	(1,878,088)	1,878,088	-
At end of year	1,098,297	2,188,534	118,263	4,668,551	1,878,088	9,951,733

Consolidated cash flow statement

	Notes	2005 Shs'000	2004 Shs'000
Operating activities			
Cash generated from operations	24(a)	7,501,476	7,848,255
Interest received		260,703	54,934
Interest paid		(12,807)	(25,463)
Income tax paid		(1,674,227)	(1,926,499)
		<hr/>	<hr/>
Net cash generated from operating activities		6,075,145	5,951,227
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	14	(1,223,487)	(2,155,245)
Proceeds from disposal of property, plant and equipment		55,736	71,694
Dividends received from associate		763,231	691,417
Pre-acquisition dividends received from subsidiary		11,230	-
		<hr/>	<hr/>
Net cash used in investing activities		(393,290)	(1,392,134)
		<hr/>	<hr/>
Financing activities			
Proceeds from issue of ordinary shares		-	7,992
Dividends paid to shareholders		(2,806,578)	(1,691,249)
Dividends paid to minority interest		(1,061,368)	(717,017)
Bonus share issue costs		(9,774)	-
		<hr/>	<hr/>
Net cash used in financing activities		(3,877,720)	(2,400,274)
		<hr/>	<hr/>
Increase in cash and cash equivalents		1,804,135	2,158,819
		<hr/>	<hr/>
Movement in cash and cash equivalents			
At start of year		5,210,979	3,052,160
Increase		1,804,135	2,158,819
		<hr/>	<hr/>
At end of year	24(b)	7,015,114	5,210,979
		<hr/>	<hr/>

Accounting policy notes

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs) and prepared under the historical cost convention as modified by the revaluation of certain property and equipment and the carrying of investment property and available-for-sale investments at fair values.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 and actions, actual results ultimately may differ from those estimates.

(b) Consolidation

The consolidated financial statements include the financial statements of East African Breweries Limited and its subsidiaries and associate up to 30 June as shown in Note 16 and 17. All intra-group transactions are eliminated in full on consolidation and the unrealised profit on stocks held by the subsidiaries and associate at the accounting date is also eliminated.

(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 are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

An associate 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.

(c) 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.

Accounting policy notes (continued)

(d) Translation of 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 income statement 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:

- a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- b) 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
- c) 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.

(e) 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	50 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.

Accounting policy notes (continued)

(e) Property, plant and equipment (continued)

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.

(f) 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.

(g) 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.

(h) 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:

- (i) 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.
- (ii) 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.

Accounting policy notes (continued)

(i) 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.

(j) 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.

(k) 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.

(l) Employee benefits

(i) Retirement benefit obligations

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

The company'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.

Accounting policy notes (continued)

(l) Employee benefits (continued)

(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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

Accounting policy notes (continued)

(r) 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.

(s) 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.

(ii) 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.

Accounting policy notes (continued)

(t) 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.

(u) Comparatives

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

Disclosure notes

1 General information

East African Breweries Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Corporate Centre
Ruaraka
P O Box 30161
00100 Nairobi

The ultimate holding company is Diageo Plc which is incorporated in the United Kingdom.

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.

Disclosure notes (continued)

3 SEGMENTAL REPORTING

	Kenya		Uganda		Tanzania		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
External sales	15,431,447	13,604,341	3,754,978	2,987,994	-	-	-	-	19,186,425	16,592,335
Inter-segment sales	1,914,858	1,623,464	-	-	-	-	(1,914,858)	(1,623,464)	-	-
Total sales	17,346,305	15,227,805	3,754,978	2,987,994	-	-	(1,914,858)	(1,623,464)	19,186,425	16,592,335
Segment profit from operations	6,866,155	5,615,463	630,085	400,948	-	-	-	-	7,496,240	6,016,411
Net finance income/(costs)	4,587	172,556	24,854	1,266	-	-	-	-	29,441	173,822
Share of associate profits	-	-	-	-	1,073,370	851,664	-	-	1,073,370	851,664
Income tax expense	(2,094,473)	(1,827,895)	(352,670)	(157,991)	(375,680)	(308,098)	-	-	(2,822,823)	(2,293,984)
Segment results	4,776,269	3,960,124	302,269	244,223	697,690	543,566	-	-	5,776,228	4,747,913
Minority interest	-	-	-	-	-	-	-	-	(1,006,316)	(898,855)
Net profit for the year	-	-	-	-	-	-	-	-	4,769,912	3,849,058
OTHER INFORMATION:										
Segment assets	19,743,599	17,442,839	2,994,895	3,327,698	-	-	-	-	22,738,494	20,770,537
Segment liabilities	4,572,960	4,032,109	1,160,243	1,479,808	-	-	-	-	5,733,203	5,511,917
Capital expenditure	811,546	1,948,548	411,941	206,697	-	-	-	-	1,223,487	2,155,245
Depreciation expense	645,023	578,448	168,830	153,770	-	-	-	-	813,853	732,218
Impaired assets written down	(1,110)	(93,560)	-	-	-	-	-	-	(1,110)	(93,560)

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.

Disclosure notes (continued)

	2005 Shs'000	2004 Shs'000
4 Analysis of revenue		
Gross sales	34,677,779	30,076,665
Indirect taxes	(15,491,354)	(13,484,330)
	19,186,425	16,592,335
	19,186,425	16,592,335
5 Other operating income		
Gain on disposal of property, plant and equipment	12,890	45,767
Royalty income from associate	75,639	66,681
Rental income	22,200	14,786
Sale of by products and scrap items	49,930	42,468
Other	325,023	70,111
	485,682	239,813
	485,682	239,813
6 Operating profit		
The following items have been charged/ (credited) in arriving at operating profit:		
Depreciation on property, plant and equipment (Note 14)	813,853	732,218
Profit on disposal of property, plant and equipment	(12,890)	45,767
Operating lease rentals	386	1,679
Staff costs (Note 7)	2,058,289	1,762,601
Auditors' remuneration	11,991	11,420
	2,058,289	1,762,601
	2,058,289	1,762,601
7 Staff costs		
The following items are included within staff costs:		
- Salaries and wages	1,611,744	1,382,164
- Defined contribution scheme	38,754	17,294
- Defined benefit scheme	19,713	9,481
- National Social Security Fund	26,989	19,984
Staff gratuity	100,822	(45,228)
Redundancy costs	114,960	198,315
Other	145,307	180,591
	2,058,289	1,762,601
	2,058,289	1,762,601

The number of persons employed by the company at the year-end was 1,188 (2004: 1,128).

Disclosure notes (continued)

	2005 Shs'000	2004 Shs'000
8 Finance income/(costs)		
Interest expense	(12,807)	(25,463)
Interest income	260,703	54,934
Net foreign exchange (losses)/gains	(218,455)	144,351
	<u>29,441</u>	<u>173,822</u>
9 Income tax		
Current income tax	2,061,144	1,644,443
Prior year under provision – current tax	98,362	-
– deferred tax	1,424	-
Prior year over provision	-	(2,380)
	<u>2,160,930</u>	<u>1,642,063</u>
Deferred income tax (Note 13)	286,213	343,823
Share of associate's tax	375,680	308,098
	<u>2,822,823</u>	<u>2,293,984</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:

Profit before income tax	8,599,051	7,041,897
Tax calculated at the statutory income tax rate of 30% (2004 – 30%)	2,579,715	2,112,569
Tax effect of:		
Expenses not deductible for tax purposes	92,340	183,795
Operations in foreign jurisdictions	50,982	-
Underprovision in prior year	99,786	-
Overprovision in prior year	-	(2,380)
	<u>2,822,823</u>	<u>2,293,984</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 2005 of Shs 3.00 per share amounting to a total of Shs 1,976,937,000 has been proposed. During the year an interim dividend of Shs 1.50 per share, amounting to a total of Shs 988,486,000 was paid. The total dividend for the year is therefore Shs 4.50 per share (2004: Shs 3.47), amounting to a total of Shs 2,965,423,000 (2004: Shs 2,286,951,000).

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

Disclosure notes (continued)

11 Share capital	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 July 2004	109,830	1,098,297	2,188,534
Bonus issue of shares	21,966	219,660	(229,434)
	131,796	1,317,957	1,959,100
Additional shares as a result of share split	527,183	-	-
Balance at 30 June 2005	658,979	1,317,957	1,959,100

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% (2004: 30%). The movement in the deferred income tax account is as follows:

Group	2005 Shs'000	2004 Shs'000
At start of year	1,197,412	756,609
Charge to profit and loss account (Note 9)	286,213	343,823
Charge recognised directly in equity	-	86,227
Currency changes	8,002	10,753
At end of year	<u>1,491,627</u>	<u>1,197,412</u>
Made up of:		
Deferred income tax assets	(2,215)	(14,968)
Deferred income tax liabilities	1,493,842	1,212,380
	<u>1,491,627</u>	<u>1,197,412</u>
Company		
At start of year	49,217	(43,096)
Credit to profit and loss account	(40,635)	53,707
Charge recognised directly in equity	-	38,606
At end of year	<u>8,582</u>	<u>49,217</u>

Disclosure notes (continued)

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	1.7.2004 Shs'000	Charged/ (credited) to P/L Shs'000	Currency changes Shs'000	30.6.2005 Shs'000
Deferred income tax liabilities				
Property, plant and equipment	1,367,761	248,444	8,002	1,624,207
Defined benefit asset	33,923	-	-	33,923
Unrealised exchange gain	56,649	(121,550)	-	(64,901)
Tax losses carried forward	(103,635)	52,238	-	(51,397)
Provisions	(142,318)	94,328	-	(47,990)
	<u>1,212,380</u>	<u>273,460</u>	<u>8,002</u>	<u>1,493,842</u>
Deferred income tax assets				
Property, plant and equipment:	53,954	12,547	-	66,501
Tax losses carried forward	(48,264)	-	-	(48,264)
Unrealised exchange gain	3,178	145	-	3,323
Provisions	(23,836)	61	-	(23,775)
	<u>(14,968)</u>	<u>12,753</u>	<u>-</u>	<u>(2,215)</u>
Net deferred income tax liability	<u>1,197,412</u>	<u>286,213</u>	<u>8,002</u>	<u>1,491,627</u>

A deferred tax asset of Shs 375,002,000 (2004 – KShs 374,480,000) 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	1.7.2004 Shs'000	Charged/ (credited) to P/L Shs'000	30.6.2005 Shs'000
Deferred income tax liabilities			
Property, plant and equipment	40,527	442	40,969
Unrealised exchange gain	32,713	(32,713)	-
	<u>73,240</u>	<u>(32,271)</u>	<u>40,969</u>
Deferred income tax assets			
Provisions	(16,656)	12,605	(4,051)
Unrealised exchange losses	(7,367)	(20,969)	(28,336)
	<u>(24,023)</u>	<u>(8,364)</u>	<u>(32,387)</u>
Net deferred income tax liability	<u>49,217</u>	<u>(40,635)</u>	<u>8,582</u>

Disclosure notes (continued)

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
Cost or valuation						
At start of year	1,524,618	1,371,325	7,399,262	397,953	914,885	11,608,043
Exchange differences	-	(5,765)	(28,627)	-	595	(33,797)
Additions	-	7,407	243,022	-	973,058	1,223,487
Transfers	200,622	38,576	1,268,185	-	(1,507,383)	-
Disposals	(11,962)	(18,463)	(78,330)	(29,871)	-	(138,626)
Transfer from Inventory	-	-	262,065	-	-	262,065
Impairment loss	-	-	(30,997)	-	-	(30,997)
At end of year	1,713,278	1,393,080	9,034,580	368,082	381,155	12,890,175
Depreciation						
At start of year	-	79,667	3,423,824	330,080	-	3,833,571
Exchange differences	-	(1,141)	(10,740)	-	-	(11,881)
Charge for the year	38,958	38,241	736,125	529	-	813,853
On inventory transfers	-	-	176,016	-	-	176,016
On disposals	(4,427)	(2,750)	(59,072)	(29,531)	-	(95,780)
On impairment	-	-	(29,887)	-	-	(29,887)
At end of year	34,531	114,017	4,236,266	301,078	-	4,685,892
Net book amount						
At 30 June 2005	1,678,747	1,279,063	4,798,314	67,004	381,155	8,204,283
At 30 June 2004	1,524,618	1,291,658	3,975,438	67,873	914,885	7,774,472

Disclosure notes (continued)

14 (b) Company	Leasehold buildings Shs'000	Plant & machinery Shs'000	Total Shs'000
Cost or valuation			
At start of year	165,500	129,068	294,568
Additions	-	69,770	69,770
At end of year	165,500	198,838	364,338
Depreciation			
At start of year	-	76,802	76,802
Charge for the year	3,879	76,799	80,678
At end of year	3,879	153,601	157,480
Net book amount			
At 30 June 2005	161,621	45,237	206,858
At 30 June 2004	165,500	52,266	217,766

(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 2005, 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	580,113	720,429	7,779,175	367,779	9,447,496
Accumulated depreciation	(140,175)	(122,200)	(3,620,332)	(330,609)	(4,213,316)
Net book amount					
At 30 June 2005	439,938	598,229	4,158,843	37,170	5,234,180
At 30 June 2004	494,448	612,453	4,260,537	67,570	5,435,008

Disclosure notes (continued)

14 Property, plant and equipment (continued)

Company	Leasehold buildings Shs'000	Plant and equipment Shs'000	Total Shs'000
Cost	1,000	299,849	300,849
Accumulated depreciation	-	(255,053)	(255,053)
Net book amount			
At 30 June 2005	1,000	44,796	45,796
At 30 June 2004	1,000	52,266	53,266

15 Leases

(a) Prepaid operating lease rentals

Leases of land have been classified as operating leases.

(i) Group

<u>Cost</u>		
At 1 July 2004 and 1 July 2003	38,882	38,882
<u>Amortisation</u>		
At 1 July 2004 and 2003	(5,066)	(3,387)
Amortisation for the year	(386)	(1,679)
	(5,452)	(5,066)
At 30 June	33,430	33,816

(ii) Company

<u>Cost</u>		
At 1 July 2004 and 1 July 2003	2,250	2,250
<u>Amortisation</u>		
At 1 July 2004 and 2003	(328)	(295)
Amortisation for the year	(31)	(33)
	(359)	(328)
At 30 June	1,891	1,922

Disclosure notes (continued)

16 Investments in associates

(a) Group	Effective interest	2005 Shs'000	2004 Shs'000
Tanzania Breweries Limited	20%	1,024,595	1,164,357

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

(b) Company	2005 Shs'000	2004 Shs'000
Tanzania Breweries Limited (58,985,693 ordinary shares of TShs 100 each)	3,409,066	3,484,622

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)	2005 Shs'000	2004 Shs'000
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	10,000	10,000
	<u>10,400</u>	<u>10,400</u>

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

17 (a) Investments in subsidiaries

	Effective interest	2005 Shs'000	2004 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%	300,000	300,000
UDV (Kenya) Limited	46.32%	589,410	589,410
Castle Brewing Kenya Limited	100%	150,000	150,000
		<u>4,324,783</u>	<u>4,324,783</u>

Disclosure notes (continued)

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
<u>Cost</u>						
At start and end of year	116,415	334,249	2,129,421	461,662	271,554	3,313,301
<u>Less:</u> Pre-acquisition dividends	-	-	-	-	(11,230)	(11,230)
	116,415	334,249	2,129,421	461,662	260,324	3,302,071
<u>Amortisation</u>						
At start and end of year	116,415	334,249	2,129,421	46,166	27,156	2,653,407
<u>Net book amount</u>						
At end of the year	-	-	-	415,496	233,168	648,664
At start of the year	-	-	-	415,496	244,398	659,894

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

The directors, with the advice of the consulting actuary and based on their knowledge, are of the view that nothing significant has happened to have an impact on the fair value of the defined benefit asset since the last actuarial valuation as at 30 June 2004.

	2004 Shs'000
The amounts recognised in the balance sheet are determined as follows:	
Present value of funded obligations	327,093
Fair value of scheme assets	(454,396)
Present value of unfunded obligations/(over-funding)	(127,303)
Unrecognised actuarial gains	11,379
Asset in the balance sheet	(115,924)

The amounts recognised in the profit and loss account for the year are as follows:

	2004 Shs'000
Current service cost	18,510
Interest cost	26,079
Expected return on scheme assets	(35,108)
Net charge for the year included in staff costs	9,481
Contributions paid	(2,158)
Movement in the liability/asset in the balance sheet	7,323

Disclosure notes (continued)

18 Retirement benefit obligations (continued)

On 1 July 2004, all employees who were members of the defined benefit scheme were transferred to a Group defined contribution scheme. The transfer value was based on the prior year actuarial valuation. The defined benefit scheme is in the process of being wound up.

The principal actuarial assumptions used were as follows:

	2004
- discount rate	9%
- expected rate of return on scheme assets	9%
- future salary increases	7%
- future pension increases	0%

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:

	2005	2004
	Shs'000	Shs'000
Outstanding at 1 July	256,871	323,324
Bonus issue of shares	51,374	-
	<u>308,245</u>	<u>323,324</u>
Additional shares as a result of share split	1,232,980	-
	<u>1,541,225</u>	<u>323,324</u>
Granted during the year	128,760	30,143
Lapsed	-	-
Exercised	<u>(450,280)</u>	<u>(96,596)</u>
Outstanding at 30 June	<u>1,219,705</u>	<u>256,871</u>
Exercise price per share	<u>14.79</u>	<u>73.95</u>

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

Employee Share Save Scheme

As at 30 June 2005, the Trust's obligation to members under the employee share save scheme stood at 1,637,900 shares (2004 – 294,012). During the year 50,415 (2004 – 16,896) shares were exercised by employees. The exercise price per share is KShs 12.13.

Disclosure notes (continued)

19 Inventories

Group	2005 Shs'000	2004 Shs'000
Raw materials	1,278,403	1,104,268
Consumables	1,267,622	1,434,413
Finished goods	753,454	868,579
Goods in transit	35,748	82,840
	<u>3,335,227</u>	<u>3,490,100</u>

20 Receivables and prepayments

(a) Group

Trade receivables	1,303,183	1,014,155
Barley advances	174,508	111,927
Other receivables	485,075	640,180
Receivable from related parties (Note 25)	227,975	235,229
	<u>2,190,741</u>	<u>2,001,491</u>

(b) Company

Other receivables	22,628	32,961
Receivable from related parties (Note 25)	1,930,055	2,051,977
	<u>1,952,683</u>	<u>2,084,938</u>

21 Payables and accrued expenses

(a) Group

Trade payables	789,832	904,924
VAT and excise duty payable	1,152,289	1,040,733
Other creditors	1,092,891	1,754,639
Payable to related parties (Note 25)	580,543	-
	<u>3,615,555</u>	<u>3,700,296</u>

(b) Company

Other payables	457,672	909,748
Payable to related parties (Note 25)	463,520	382,163
	<u>921,192</u>	<u>1,291,911</u>

Disclosure notes (continued)

22 Contingent liabilities - Group

Contingent liabilities incurred in the ordinary course of business:

	2005 Shs'000	2004 Shs'000
Guarantees in respect of bank advances to barley farmers	150,000	34,085
Pending legal cases	303,615	54,168
Other liabilities	143,819	313,023
	<u>597,434</u>	<u>401,276</u>

23 Commitments

Capital commitments - Group

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

	2005 Shs'000	2004 Shs'000
Contracted but not provided for	2,161,960	443,413
Authorised but not contracted for	-	109,000
	<u>2,161,960</u>	<u>552,413</u>

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:

	2005 Shs'000	2004 Shs'000
Not later than 1 year	197,587	108,680
Later than 1 year and not later than 5 years	548,707	12,079
	<u>746,294</u>	<u>120,759</u>

Disclosure notes (continued)

23 Commitments (continued)

(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:

	2005 Shs'000	2004 Shs'000
Not later than 1 year	8,052	29,376
Later than 1 year and not later than 5 years	13,795	46,582
	<u>21,847</u>	<u>75,958</u>

24 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations:

	2005 Shs'000	2004 Shs'000
Profit before income tax	8,599,051	7,041,897
Adjustments for:		
Interest income (Note 8)	(260,703)	(54,934)
Income from associates	(1,073,370)	(851,664)
Interest expense (Note 8)	12,807	25,463
Depreciation (Note 14)	813,853	732,218
Amortisation of prepaid operating lease rentals	386	1,679
Amortisation of goodwill	-	36,661
Exchange differences	2,264	149,518
(Profit)/loss on sale of property, plant and equipment	(12,890)	(45,767)
Loss on impairment of property, plant and equipment	1,110	93,560
Write back of unclaimed dividends	(189,029)	(50,196)
Net decrease in gratuity provisions	(196,852)	(62,797)
Net increase in defined benefit asset	-	7,323
Changes in working capital		
– receivables and prepayments	(189,250)	(415,778)
– inventories	68,822	13,393
– payables and accrued expenses	(74,723)	1,227,679
Cash generated from operations	<u>7,501,476</u>	<u>7,848,255</u>

(b) Cash and cash equivalents

Term deposit	6,357,252	2,466,353
Cash and bank balances	779,817	2,756,458
Bank overdraft	(121,955)	(11,832)
	<u>7,015,114</u>	<u>5,210,979</u>

Disclosure notes (continued)

25 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:

i) Sale of goods and services	2005	2004
	Shs'000	Shs'000
Other related parties	38,558	8,659
	<u> </u>	<u> </u>
ii) Purchase of goods and services		
Parent company	39,760	219,303
Other related parties	739,146	518,202
	<u> </u>	<u> </u>
	778,906	737,505
	<u> </u>	<u> </u>

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

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

a) Group	2005	2004
	Shs'000	Shs'000
Receivables from related parties	227,975	235,229
	<u> </u>	<u> </u>
Payable to related parties	580,543	-
	<u> </u>	<u> </u>
b) Company		
Receivables from subsidiaries	1,902,822	1,833,832
Receivables from related parties	27,233	218,145
	<u> </u>	<u> </u>
Receivables from related parties	1,930,055	2,051,977
	<u> </u>	<u> </u>
Payables to related parties	463,520	382,163
	<u> </u>	<u> </u>

Notes (continued)

25 Related party transactions (continued)

iv) Directors' remuneration	2005 Shs'000	2004 Shs'000
a) Group		
- fees for services as a director	5,143	5,315
- other emoluments	140,717	138,300
	<hr/>	<hr/>
	145,860	143,615
	<hr/> <hr/>	<hr/> <hr/>
b) Company		
- fees for services as a director	3,320	2,913
- other emoluments	39,459	35,370
	<hr/>	<hr/>
	42,779	38,283
	<hr/> <hr/>	<hr/> <hr/>

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