

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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Directors and Professional Advisers

Directors

R Kemoli - Chairman
N Hutchinson* - Group Managing Director
A McKittrick
J G Kiereini
A S M Ndegwa - (Alternate —J P M Ndegwa)
V O Ojode
J Kibet

*British

Secretary

J L G Maonga
Certified Public Secretary (Kenya)
P O Box 30029, 00100
Nairobi

Registered Office

Ngano House
Commercial Street
Industrial Area
P O Box 30096, 00100
Nairobi

Auditors

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii" Ring Road, Westlands
P O Box 40092, 00100
Nairobi

Bankers

Barclays Bank of Kenya Limited
Barclays Plaza Branch
P O Box 46661, 00200
Nairobi

Advocates

Kaplan & Stratton
Williamson House
4th Ngong Avenue
P O Box 40111, 00100
Nairobi



Notice of Meeting



NOTICE IS HEREBY GIVEN that the Seventy Eighth Annual General Meeting of the Company will be held at the Regency Centre, Grand Regency Hotel, Loita Street/Uhuru Highway, Nairobi on Wednesday, 23 November 2005 at 10.00 a.m. for the following purposes:-

AGENDA

1. To read the notice of the meeting.
2. To confirm the minutes of the Seventy Seventh Annual General Meeting held on 23 November 2004.
3. To receive the Chairman's report.
4. To receive and adopt the Audited Financial Statements for the financial year ended 30 June 2005, together with the reports of the Directors and the Auditors.
5. To note that the Directors do not recommend payment of a dividend for the financial year ended 30 June 2005.
6. Election of Directors:-
 - (i) Mr Richard Kemoli retires in accordance with Articles 88 and 89 of the Company's Articles of Association and, being eligible, offers himself for re-election.
 - (ii) Mr Vitalis Ojode retires in accordance with Articles 88 and 89 of the Company's Articles of Association and, being eligible, offers himself for re-election.
 - (iii) Mr J Kibet retires in accordance with Articles 93 of the Company's Articles of Association and, being eligible, offers himself for re-election.
7. To approve the Directors' remuneration.
8. To note that Deloitte & Touche continue in office as Auditors under section 159(2) of the Companies Act and to authorize the Directors to fix their remuneration.
9. To transact any other business of the Company of which due notice has been received.

BY ORDER OF THE BOARD

J L G Maonga
SECRETARY

26 October 2005

PROXIES: A Member entitled to attend and vote may appoint a proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company.

The Chairman's Statement



The financial year ended 30 June 2005 was a very successful one for the Group as it reported the first profit since 1997.

BUSINESS ENVIRONMENT

Economic activity picked up during the period despite drought at the beginning of the financial year. Tourism performed better than in the prior year, which had a positive impact on the demand for livestock products.

TRADING PERFORMANCE

Financial Highlights

Turnover increased by 20% to Shs 7.6 billion compared to Shs 6.3 billion in 2004.

Gross profit increased by 29% over prior year to Shs 888.9 million.

Operating profit increased by 691% to Shs 225 million compared to Shs 28 million in 2004.

Net profit before taxation increased by 262% to Shs 155 million compared to a loss of Shs 95.5 million in 2004.

Net profit for the year increased by 171% to Shs 72.5 million from a loss of Shs 101.9 million the prior year.

Operating and administrative costs remained flat over prior year, whilst borrowing costs were lower.

The human foods sector performed significantly better than prior year. Volumes were up and margins improved as a result of the continuing efforts to improve milling efficiencies and to procure quality raw materials at favourable prices. The company's ability to price more competitively has, with the support of motivated distribution partners, allowed the company to regain lost volume in some markets. In Uganda, the introduction of a baker's flour product enabled the continued improvement in the results of Unga Millers (Uganda) Limited.

The animal health and nutrition business was faced with a series of raw material availability challenges during the first half of the year. Nevertheless, volumes increased over prior year with significant improvement recorded in the dairy sector as a consequence of better milk prices.

In view of the large loans outstanding, previous poor financial performance and the need for capital to undertake further plant modernisation, the Board does not believe it prudent to recommend the payment of a dividend.

HIGHLIGHTS FROM SUBSIDIARY COMPANIES

Unga Farm Care (EA) Limited

The dairy sector performed well throughout the year, supported by stable milk prices and a high demand for quality heifers both locally and for export. The poultry sector experienced a major shortage of good quality protein source raw materials throughout East Africa. This resulted in higher prices and inconsistent quality, leading to reduced margins. With increased competition in this sector, margins will remain under pressure. The company is planning to make significant investments in plant and machinery upgrades in order to improve production efficiencies, leading to reduced costs.

Unga Limited

The company had an excellent trading year, both in terms of volume growth and profitability. It benefited from the supply of high quality maize from Tanzania in the second half of the year, which resulted in noticeable improvements in milling efficiencies. Improved trade channel management arising from the reduction in the number of wholesalers who buy directly from the company and the enhanced management of distributor accounts played critical roles in the achievement of the year's good results. The company made a profit after many years of making losses.

Unga Millers (Uganda) Limited

Prices of wheat flour were negatively impacted in the first four months of the year by raw material shortages, brought about by transport delays from Mombasa to Kampala. However, the introduction of Exe® Baker's Flour towards the end of the calendar year enabled the company to increase wheat flour volumes. Frequent mill breakdowns along with electrical power load shedding and fluctuations resulted in high unscheduled down time and production inefficiencies.

Nampak Limited

The company performed better than in 2004. External sales increased although Unga Limited remains its major customer. Operations have been successfully relocated to Nampak's premises in Thika.

The Chairman's Statement



Continued

PEOPLE INITIATIVES

The Group continues to train its people on specific skills and provides career development opportunities wherever possible. We undertook in-house VCT testing and implemented an HIV/AIDS peer educators' programme.

COMMUNITY PARTNERSHIP

The Group joined other companies and institutions in donating flour to the famine stricken communities. We also made it possible for the Red Cross to buy flour at discounted prices for the same cause. It continued with its active participation in the "Neighbours Against Aids" project.

STRATEGIC PARTNERSHIP

With the able support of its strategic partner, Seaboard Corporation, the company's efforts to return to profitability have been rewarded as shown by the good results. The agreement providing Seaboard Corporation with an option to subscribe additional shares in Unga Holdings Limited has been extended to 31st October 2008. If exercised in full, this would increase Seaboard's total shareholding in Unga Holdings to 50%, and provide the company with further capital to undertake investments aimed at improving and expanding the business.

The Management Agreement was renewed for a further five years from 17 March 2005 in accordance with the provisions of the March 2000 Agreement with Seaboard Corporation.

FUTURE OUTLOOK

Maize supply is expected to be tight in the first quarter of the year but bumper grain harvests are being forecasted across the region for the remainder of the year.

Kenyan wheat flour may be rendered non-competitive in the domestic market next year when safeguard measures instituted by the Common Market for Eastern and Southern Africa (COMESA) come to an end in May 2006. The imposition of a 35% tariff on imported wheat by the East African Community Customs Union has made wheat flour from EAC/COMESA member states cheaper than flour produced in Kenya. Imports of Tanzanian flour are already occurring.

Most of the raw materials for the animal and nutrition sector are expected to be available for a greater part of the year. However the availability of maize germ and whole fish meal may be challenges in the coming year.

In all, the positive economic indicators in the region should enable the Group to consolidate and expand the gains already made.

THE BOARD

Mr J J Mvoyo resigned from the Board after serving for 16 years. Dr. K Kiplagat also resigned after 8 years service. I wish, on behalf of the Board and the shareholders, to thank both of them for their dedicated services to the Group.

Mr. Jinaro Kibet was appointed in the course of the year to fill a casual vacancy. He is a lawyer by profession and brings to the Board valuable legal expertise and experience gained while working in various firms and institutions.

APPRECIATION

In conclusion, in view of the encouraging results I wish to thank my fellow Directors for their dedicated service to the Group. I also wish to thank the Management and employees for their devotion and hard work without which the achievements noted above would not have been possible. My appreciation also goes to our customers and suppliers for their continued loyalty and to the shareholders for their patience.

R. Kemoli
Chairman

22 September, 2005

Report of the Directors



The directors present their report together with the audited financial statements of the group for the year ended 30 June 2005.

ACTIVITIES

The company operates as a holding company. The principal activities of the group continue to be the milling of wheat and maize, the manufacture of packaging materials and animal nutrition products and the distribution of animal health and nutrition and crop protection products.

GROUP RESULTS

	2005 Shs'000	2004 Shs'000
Profit/(loss) before taxation	155,017	(95,505)
Taxation charge	(30,525)	(30,910)
Profit/(loss) before minority interests	124,492	(126,415)
Minority interests	(51,950)	24,466
Net profit/(loss) loss for the year	72,542 = = = = =	(101,949) = = = = =

DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year.

DIRECTORS

The present board of directors is shown on page 2.

- Dr Kenneth Kiplagat resigned as a director with effect from 9th December 2004.
- Mr J. Mvoyo resigned as a director on 22nd September 2004.
- Mr Jinaro Kibet was appointed director with effect from 24th February 2005.

AUDITORS

Deloitte & Touche, having confirmed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

J L G Maonga
SECRETARY

22 September 2005

Statement of Directors' Responsibilities



The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group and the company for that year. It also requires the directors to ensure the group keeps proper accounting records which disclose with reasonable accuracy at any time 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 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 of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

R. Kemoli
Director

22 September 2005

N. Hutchinson
Director

22 September 2005

The Company is committed to meeting the standards of Corporate Governance set out in the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (CMA Guidelines). The Directors are ultimately accountable to the shareholders for ensuring that the Company's business is conducted in accordance with high standards of corporate governance.

The Role of the Board

The Board is responsible for the Company's long term growth. It formulates policies and strategies and ensures that business objectives, aimed at promoting and protecting shareholder value are achieved. It therefore charts the direction of the group and monitors management's performance on behalf of the shareholders.

Board Meetings

The board meets four times a year for scheduled meetings and on other occasions to deal with any specific matters that require attention between scheduled meetings. Scheduled meetings include annual strategic and financial results reviews, scrutiny of quarterly and half yearly performance and monitoring of business and operational issues.

Composition of the Board

The board at present comprises seven directors, five of whom are non-executive. They are drawn from across the various sectors of the economy and have high levels and range of business experience which is essential to managing the business of the group effectively. Mr. Nicholas Hutchinson is the Managing Director of the Company.

One third of the members of the Board retires by rotation each year and may offer themselves for re-election if eligible in accordance with the Company's Articles of Association. Any director appointed by the Board to fill a casual vacancy is subject to election by shareholders at the next Annual General Meeting and is not taken into account in determining the directors who are to retire by rotation at that meeting.

Other Board Information

The different roles of Chairman and Chief Executive are acknowledged. The key functions of the Chairman are to conduct board meetings and meetings of the shareholders and to ensure that all directors are briefed in order to take a full and constructive part in board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

To enable the Board to function effectively and allow directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Board Committees

Audit Committee - The Committee is chaired by Mr. Jeremiah Kiereini who is a non-executive director. Its other members are Mr. Andrew Ndegwa and Mr. Jinaro Kibet, both of whom are also non-executive directors. It met three times in the year and the external auditors attended one of these meetings.

It assists the company's Board to discharge its corporate governance responsibilities, including the group's relationship with, and the independence of, the external auditors; the reliability and appropriateness of the disclosure of the financial statements and external financial communication; and the maintenance of an effective business risk management framework including compliances and internal controls.

The Board appoints other committees as and when necessary.

Communication

The company places great importance on communication with its shareholders. It publishes a full annual report and financial accounts which are distributed to all shareholders and on request to other parties who have an interest in the group's performance. It also issues press notices following the release of half yearly and yearly results and whenever there are significant developments to report on. Shareholders have direct access to the company and it responds to numerous letters from them and customers on a wide range of issues.

Continued

The Company is committed to complying with continuous obligations contained in applicable Listing Rules and the Capital Markets Authority Act applicable in Kenya.

Director's Benefits and Loans

Since the last Annual General Meeting of the Company to the date of this report, no director has received or become entitled to receive any benefit other than directors' fees.

The aggregate amount of emoluments for directors' services rendered in the financial year is disclosed on page 23.

Neither at the end of the financial year nor at any time during the year did there exist any arrangement to which the Group is a party whereby Directors might acquire benefits by means of the acquisition of shares in the Group.

There were no directors' loans at any time during the year.

Directors' Interest

The interest of the directors in the shares of the Company as at 30 June 2005, were as follows:

Name	No of Shares
A McKittrick	11,227

Distribution of Shareholders

Shareholding (No. of Shares)	No. of shareholders
Less than 1,000	3,653
1000-5,000	2,021
5,001-10,000	510
10,001-100,000	441
100,001-1,000,000	44
above 1,000,0000	2
Total	6,671

Major Shareholders

The top 10 shareholders as at 30 June 2005 were as follows:

Name	No. of shares	% Shareholding
1. Victus Limited	32,130,992	50.93
2. Moses Thara	3,173,431	5.03
3. Pradeep Patani	889,282	1.41
4. Alimohamed Adam	872,785	1.38
5. Kingsway Nominees	869,379	1.38
6. Stanbic Nominees Ltd. A/c SCKPF	671,036	1.06
7. Savitaben Velji Shah	621,398	0.98
8. Apollo Insurance Company Limited	369,841	0.59
9. Gandhi Smarak Nidhi Fund	428,135	0.52
10. Awnali Rajabali Datto	309,448	0.49

R. Kemoli
Director

22 September 2005

N. Hutchinson
Director

22 September 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UNGA GROUP LIMITED

We have audited the financial statements on pages 11 to 36 for the year ended 30 June 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 7, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those 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, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion:

- proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;
- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2005 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the financial statements which gives disclosures concerning the going concern basis of the financial statements of the group.

Deloitte & Touche
 26 October 2005

Audit . Tax . Consulting . Financial Advisory .

Partners: D.M.Ndonye H.Gadhoke* D.C.Hodges* J.M.Kiarie M.M.Kisuu S.O.Onyango J.W.Wangai
 *British

A member firm of
Deloitte Touche Tohmatsu

Consolidated Income Statement For the Year Ended 30 June 2005

	Notes	2005 Shs'000	2004 Shs'000
TURNOVER		7,558,509	6,305,387
COST OF SALES		(6,669,568)	(5,616,963)
GROSS PROFIT		888,941	688,424
OTHER OPERATING INCOME		33,479	37,243
DISTRIBUTION COSTS		(322,835)	(342,814)
ADMINISTRATIVE EXPENSES		(291,804)	(326,239)
OTHER OPERATING EXPENSES		(82,666)	(28,169)
OPERATING PROFIT	4	225,115	28,445
FINANCE COSTS - NET	6	(70,098)	(88,763)
PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS		155,017	(60,318)
EXCEPTIONAL ITEMS	7	-	(35,187)
PROFIT/(LOSS) BEFORE TAXATION		155,017	(95,505)
TAXATION CHARGE	8	(30,525)	(30,910)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		124,492	(126,415)
MINORITY INTERESTS	23	(51,950)	24,466
NET PROFIT/(LOSS) FOR THE YEAR	9	= = = = = 72,542	= = = = = (101,949)
		= = = = =	= = = = =

Consolidated Balance Sheet
30 June 2005



	Notes	2005 Shs'000	2004 Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	11	1,631,709	1,783,420
Prepaid operating lease rentals	12	52,896	64,396
Intangible assets	13	2,329	2,983
Retirement benefits asset	15	121,509	131,181
Deferred taxation asset	16	140,945	149,753
		<u>1,949,388</u>	<u>2,131,733</u>
Current assets			
Properties held for sale	17	94,109	92,086
Inventories	18	1,141,516	1,266,679
Trade and other receivables	19	446,038	505,602
Due from a related company	20	12	-
Taxation recoverable		27,138	27,167
Term deposits and treasury bills	21	141,777	146,415
Cash and bank balances		<u>72,741</u>	<u>83,986</u>
		<u>1,923,331</u>	<u>2,121,935</u>
Total assets		<u>3,872,719</u>	<u>4,253,668</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	315,454	315,454
Share premium		73,148	73,148
Revaluation surplus		552,829	576,670
Revenue reserve		<u>465,970</u>	<u>367,542</u>
Shareholders' funds		<u>1,407,401</u>	<u>1,332,814</u>
Minority interests	23	<u>718,952</u>	<u>665,901</u>
Non current liabilities			
Borrowings	24	38,325	90,313
Service gratuity	25	53,601	47,543
Shareholders' loans	26	<u>61</u>	<u>65</u>
		<u>91,987</u>	<u>137,921</u>
Current liabilities			
Trade and other payables	27	564,816	632,551
Unclaimed dividends		21,507	21,507
Due to related companies	28	558,441	906,927
Borrowings	24	493,966	541,623
Taxation payable		<u>15,649</u>	<u>14,424</u>
		<u>1,654,379</u>	<u>2,117,032</u>
Total equity and liabilities		<u>3,872,719</u>	<u>4,253,668</u>
		<u>= = = = =</u>	<u>= = = = =</u>

The financial statements on pages 11 to 36 were approved by the board of directors on 22 September 2005 and were signed on its behalf by:

R Kemoli *Director*

N Hutchinson *Director*

Company Balance Sheet
30 June 2005



	Notes	2005 Shs'000	2004 Shs'000
ASSETS			
Non current assets			
Investments in subsidiary companies	14	<u>1,321,457</u>	<u>1,195,311</u>
Current assets			
Other receivables	19	184	260
Due from subsidiary companies	20	104,112	106,754
Taxation recoverable		2,247	2,183
Term deposits and treasury bills	21	<u>28,962</u>	<u>28,306</u>
		<u>135,505</u>	<u>137,503</u>
Total assets		<u>1,456,962</u>	<u>1,332,814</u>
		<u>= = = = =</u>	<u>= = = = =</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	315,454	315,454
Share premium		73,148	73,148
Revaluation surplus		702,950	702,950
Revenue reserve		<u>358,078</u>	<u>241,262</u>
		<u>1,449,630</u>	<u>1,332,814</u>
Current liabilities			
Other payables	27	<u>7,332</u>	<u>-</u>
Total equity and liabilities		<u>1,456,962</u>	<u>1,332,814</u>
		<u>= = = = =</u>	<u>= = = = =</u>

The financial statements on pages 11 to 36 were approved by the board of directors on 22 September 2005 and were signed on its behalf by:

R Kemoli *Director*

N Hutchinson *Director*

**Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2005**



	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Revenue reserve (deficit) Shs'000	Total Shs'000
At 1 July 2003	315,454	73,148	607,555	439,596	1,435,753
Transfer of excess depreciation	-	-	(44,121)	44,121	-
Deferred taxation on excess depreciation	-	-	13,236	(13,236)	-
Exchange adjustment	-	-	-	(990)	(990)
Net loss for the year	-	-	-	(101,949)	(101,949)
At 30 June 2004	315,454	73,148	576,670	367,542	1,332,814
At 1 July 2004	315,454	73,148	576,670	367,542	1,332,814
Transfer of excess depreciation	-	-	(26,561)	26,561	-
Deferred taxation on excess depreciation	-	-	7,968	(7,968)	-
Revaluation surplus realised on disposal of property, plant and equipment	-	-	(7,497)	7,497	-
Deferred tax on realised revaluation surplus	-	-	2,249	(2,249)	-
Exchange adjustment	-	-	-	2,045	2,045
Net profit for the year	-	-	-	72,542	72,542
At 30 June 2005	315,454	73,148	552,829	465,970	1,407,401

**Company Statement of Changes in Equity
For the Year Ended 30 June 2005**



	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Revenue reserve Shs'000	Total Shs'000
At 1 July 2003	315,454	73,148	702,950	344,201	1,435,753
Exchange adjustment	-	-	-	(990)	(990)
Net loss for the year	-	-	-	(101,949)	(101,949)
At 30 June 2004	315,454	73,148	702,950	241,262	1,332,814
At 1 July 2004	315,454	73,148	702,950	241,262	1,332,814
Net profit for the year	-	-	-	116,816	116,816
At 30 June 2005	315,454	73,148	702,950	358,078	1,449,630

Consolidated Cash Flow Statement For the Year Ended 30 June 2005



	Notes	2005 Shs'000	2004 Shs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	29(a)	188,618	(58,231)
Interest received		1,935	1,730
Interest paid		(94,235)	(87,330)
Taxation paid		(20,483)	(2,407)
Net cash generated from/(used in) operating activities		75,835	(146,238)
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(28,237)	(34,904)
Proceeds on disposal of property, plant and equipment		6,585	7,951
Purchase of intangible assets		(379)	(2,100)
Proceeds on disposal of properties held for sale		26,998	12,118
Net cash generated from/(used in) investing activities		4,967	(16,935)
FINANCING ACTIVITIES			
Loans received	29(d)	-	214,944
Loans repaid	29(d)	(75,605)	(122,009)
Net cash (used in)/generated from financing activities		(75,605)	92,935
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,197	(70,238)
CASH AND CASH EQUIVALENTS AT 1 JULY		(162,003)	(91,624)
Exchange adjustment		599	(141)
CASH AND CASH EQUIVALENTS AT 30 JUNE	29(b)	(156,207)	(162,003)
		= = = = =	= = = = =

Notes to the Financial Statements For the Year Ended 30 June 2005



1 Accounting Policies

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the prior year and are set out below.

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting, as modified by the revaluation of certain assets.

Consolidation

The consolidated financial statements incorporate the financial statements of Unga Group Limited and its subsidiary companies, all of which are made up to 30 June each year.

Subsidiary undertaking, being those companies in which the Group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are not consolidated as from the date of disposal. All intercompany transactions balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the relevant assets and liabilities.

Investments in subsidiary companies

Investments in subsidiary companies are accounted for using the equity method.

Investments in associates

An associate is a company over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Revenue recognition

Turnover, which represents net sales to external customers during the year, is recognised when goods are delivered and title has passed.

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation. The basis of valuation is as follows:

- (a) Land and buildings - open market value
- (b) Other assets - depreciated replacement cost

Professional valuations are carried out in accordance with the group policy of revaluing certain property, plant and equipment every five years.

Depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment in equal annual instalments over their estimated useful lives. The annual rates generally in use are:

Long leasehold buildings	2.5%
Short leasehold buildings	Over period of lease
Computer equipment	33.3%
Plant and machinery	5 - 7.5%
Furniture and fittings	12.5%

Accounting Policies (Continued)**Depreciation (Continued)**

Motor vehicles	25%
Silos	Shorter of 50 years or the unexpired period of the lease in respect of the land on which they are built

Excess depreciation, representing the additional depreciation following revaluations of property, plant and equipment over depreciation based on historical cost, is transferred annually from revaluation reserve to revenue reserve in the financial statements of subsidiary companies.

Leasehold land

Payments to acquire interests in leasehold land are treated as prepaid operating lease rentals and amortised over the term of the related lease.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lease.

All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Intangible assets

Intangible assets represent computer software which is stated at cost less amortisation. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of three years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in purchasing or manufacturing the inventories plus an allocation of normal overhead expenditure attributable to the processes through which they have passed. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling.

Financial instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

Treasury bills

Treasury bills are stated at redemption value less unearned discount.

Impairment

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable

Accounting Policies (Continued)**Impairment (Continued)**

amounts of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Employee benefits costs

The group operates a defined benefit retirement scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. Benefits are paid to retiring staff in accordance with scheme rules. The cost of providing retirement benefits is assessed using the attained age method by qualified actuaries. It is intended that the scheme will be valued once every three years: the last valuation was as at 31 December 2002. The company's contributions are charged to the income statement in the year to which they relate.

The amount recognised in the balance sheet represents the difference between the value of past service pension benefits and the fair value of scheme assets.

A subsidiary company operates a defined contribution staff retirement benefits scheme for its employees. The scheme is funded by contributions from both the employees and the company. The subsidiary's contributions in respect of retirement benefits are charged to the income statement in the year to which they relate.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The group's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Shs 200 per month per employee. The group's contributions are charged to the income statement in the year to which they relate.

Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

The group's unionisable staff who resign or retire at retirement age or whose services are terminated for reasons other than gross misconduct are entitled to service gratuity payments in accordance with the prevailing Collective Bargaining Agreement. Service gratuity is provided in the financial statements as it accrues to each employee.

Accounting Policies (Continued)

Segmental reporting

Segment results include revenue and expenses directly attributable to a segment.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one period (property, plant and equipment).

2 Going Concern

As at 30 June 2005, a subsidiary group, Unga Holdings Limited had a consolidated revenue deficit of Shs 473,589,000 primarily attributable to trading losses in prior years. The directors have been working to turn the company round and these efforts have begun to bear fruit. The company has improved production efficiencies, increased distribution coverage and reduced administrative costs through continued diligence in expense management, leading to improved turnover and margins, resulting in improved profitability.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Continued

**3 SEGMENTAL REPORTING
Year Ended 30 June 2005**

(a) Primary reporting format - Business segments

	Consumer Shs'000	Animal health and nutrition Shs'000	Others Shs'000	Eliminations Shs'000	Consolidated Shs'000
REVENUE					
External sales	5,601,311	1,900,440	56,758	-	7,558,509
Inter-segment sales	207,224	27,047	198,619	(432,890)	-
Total revenue	5,808,535	1,927,487	255,377	(432,890)	7,558,509
	= = = = =	= = = = =	= = = = =	= = = = =	= = = = =
RESULTS					
Operating profit	226,607	(17,640)	16,148	-	225,115
	= = = = =	= = = = =	= = = = =	= = = = =	= = = = =
Inter-segment sales are charged at market prices.					

	Consumer Shs'000	Animal health and nutrition Shs'000	Others Shs'000	Consolidated Shs'000
OTHER INFORMATION				
Capital additions				
- property, plant and equipment	14,853	13,384	-	28,237
- intangible assets	379	-	-	379
Depreciation	118,409	37,602	14,523	170,534
Amortisation	1,521	1,127	-	2,648
Segment assets	2,561,451	1,093,331	217,937	3,872,719
Segment liabilities	1,221,097	261,348	263,921	1,746,366
	= = = = =	= = = = =	= = = = =	= = = = =

(b) Secondary reporting format - Geographical segments

Over 90% of the group's consolidated income is derived in Kenya.

Continued

3 SEGMENTAL REPORTING Year Ended 30 June 2004

(a) Primary reporting format - Business segments

	Consumer Shs'000	Animal health and nutrition Shs'000	Others Shs'000	Eliminations Shs'000	Consolidated Shs'000
REVENUE					
External sales	4,469,037	1,804,616	31,734	-	6,305,387
Inter-segment sales	169,252	-	179,773	(349,025)	-
Total revenue	4,638,289	1,804,616	211,507	(349,025)	6,305,387
	=====	=====	=====	=====	=====
RESULTS					
Operating profit	(55,695)	74,425	9,715	-	28,445
	=====	=====	=====	=====	=====

Inter-segment sales are charged at market prices.

	Consumer Shs'000	Animal health and nutrition Shs'000	Others Shs'000	Consolidated Shs'000
OTHER INFORMATION				
Capital additions				
- property, plant and equipment	21,573	9,623	3,708	34,904
- intangible assets	195	1,905	-	2,100
Depreciation	109,883	42,334	14,914	167,131
Amortisation	2,984	443	252	3,679
Segment assets	3,013,619	975,005	265,044	4,253,668
Segment liabilities	1,751,664	368,794	134,495	2,254,953
	=====	=====	=====	=====

(b) Secondary reporting format - Geographical segments

Over 90% of the group's consolidated income is derived in Kenya.

Continued

4 OPERATING PROFIT

The operating profit is arrived at after charging:

	2005 Shs'000	2004 Shs'000
Depreciation	170,534	167,131
Amortisation of prepaid operating lease rentals	1,615	1,958
Amortisation of intangible assets	1,033	1,721
Directors' emoluments - fees	1,866	2,250
- other	13,787	14,440
Auditors' remuneration	5,373	6,522
Staff costs (note 5)	303,697	336,084
	=====	=====

and after crediting:

	2005 Shs'000	2004 Shs'000
Profit on disposal of properties held for sale	(15,850)	(3,118)
Profit on disposal of property, plant and equipment	(2,906)	(5,655)

5 STAFF COSTS

	2005 Shs'000	2004 Shs'000
Salaries and wages	272,976	311,134
Pension costs - defined benefit scheme	9,672	9,052
Pension costs - defined contribution scheme	310	269
Service gratuity	9,427	1,474
Social security costs (NSSF)	958	1,359
Restructuring costs	10,354	12,796
	=====	=====
	303,697	336,084
	=====	=====

The average number of employees during the period was

	No.	No.
Permanent	377	359
Temporary	230	244
	=====	=====
	607	603
	=====	=====

Continued

	2005 Shs'000	2004 Shs'000
6 FINANCE COSTS - NET		
Interest receivable:		
Deposits and bank balances	(1,935)	(1,730)
Net foreign exchange (gains)/losses	(21,537)	2,616
Interest payable:		
Bank overdraft facilities	26,421	33,876
Bank loans	24,341	24,211
Other	42,808	29,790
	93,570	87,877
	70,098	88,763
	= = = = =	= = = = =
7 EXCEPTIONAL ITEMS		
Indemnity provision	-	(35,187)
	= = = = =	= = = = =

The group entered into a strategic partnership with Seaboard Corporation in 2000 to form Unga Holdings Limited. The contributions to Unga Holdings Limited by both parties were agreed, based on the balance sheet at the transaction date. Seaboard were contributing new capital in the form of cash and Unga Group Limited were contributing assets with certain minimum values, with the agreement that Seaboard would be compensated if the net assets contributed by the group turned out to be of a lower value. The group undertook to compensate Seaboard provided that a claim was lodged to that effect. Seaboard lodged a claim for an amount of Sh 35,187,000 determined as the compensation due to them.

Continued

	2005 Shs'000	2004 Shs'000
8 TAXATION		
(a) Taxation charge		
Current taxation based on the chargeable profit for the year at 30%	21,737	14,486
Prior year under provision	-	4,297
	21,737	18,783
Deferred taxation (note 16)		
Charge for the year	8,245	11,743
Prior year under provision	543	384
	8,788	12,127
	30,525	30,910
	= = = = =	= = = = =
(b) Reconciliation of taxation charge to the expected tax based on accounting profit/(loss)		
Accounting profit/(loss) before taxation	155,017	(95,505)
	= = = = =	= = = = =
Tax charge/(credit) at the applicable rate of 30%	46,505	(28,651)
Tax effect of expenses not allowable for tax	35,733	21,538
Tax effect of income not subject to tax	(6,453)	(3,878)
Prior year under provisions	543	4,681
Deferred taxation credit not recognised	2,828	37,220
Previously unrecognised deferred tax now recognised	(48,631)	-
	30,525	30,910
	= = = = =	= = = = =

9 PROFIT FOR THE YEAR

A profit of Shs 116,816,000 (2004 - loss of Shs 101,949,000) has been dealt with in the books of Unga Group Limited

10 EARNINGS/(LOSS) PER SHARE

Basic earnings per share has been calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Net profit/(loss) for the year attributable to shareholders (Shs '000)	72,542	(101,949)
Weighted average number of ordinary shares	63,090,728	63,090,728
Basic earnings/(loss) per share	Shs 1.15	Shs (1.62)
	= = = = =	= = = = =
Diluted earnings per share is the same as basic earnings per share.		

Continued

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings Shs'000	Plant, machinery, motor vehicles and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
COST OR VALUATION				
As 1 July 2004	540,435	1,934,433	389	2,475,257
Exchange adjustments	(253)	(2,080)	-	(2,333)
Additions	-	28,237	-	28,237
Disposals	-	(24,274)	-	(24,274)
Transfer to properties held for sale	(4,570)	-	-	(4,570)
Write off	-	-	(389)	(389)
At 30 June 2005	535,612	1,936,316	-	2,471,928
Comprising:				
Valuation in 2003	518,345	1,215,916	-	1,734,261
Cost	17,267	720,400	-	737,667
	535,612	1,936,316	-	2,471,928
DEPRECIATION				
At 1 July 2004	20,853	670,984	-	691,837
Exchange adjustments	(45)	(476)	-	(521)
Charge for the year	16,554	153,980	-	170,534
Transfer to properties held for sale	(46)	-	-	(46)
Eliminated on disposals	-	(21,585)	-	(21,585)
At 30 June 2005	37,316	802,903	-	840,219
NET BOOK VALUE				
At 30 June 2005	498,296	1,133,413	-	1,631,709
At 30 June 2004	519,582	1,263,449	389	1,783,420
NET BOOK VALUE (Cost basis)				
At 30 June 2005	193,975	849,842	-	1,043,817
At 30 June 2004	197,156	857,320	389	1,054,865

Certain items of property, plant and equipment were revalued as at 30 June 2003 by Tysons Limited, registered valuers and estate agents. Buildings were revalued as at 30 June 2003 by Lloyd Masika Limited, registered valuers and estate agents.

The group has pledged assets with net book value of Shs 551,710,000 to secure borrowings granted to it (note 24).

Continued

12 PREPAID OPERATING LEASE RENTALS

	2005 Shs'000	2004 Shs'000
COST		
At 1 July	70,406	73,000
Exchange adjustment	(616)	2,984
Transfer to properties held for sale	(10,862)	(5,578)
At 30 June	58,928	70,406
	= = = = =	= = = = =
AMORTISATION		
At 1 July	6,010	4,800
Exchange adjustments	(368)	48
Amortisation for the year	1,615	1,958
Transfer to properties held for sale	(1,225)	(796)
At 30 June	6,032	6,010
NET BOOK VALUE	= = = = =	= = = = =
At 30 June	52,896	64,396
	= = = = =	= = = = =

The group has pledged leasehold land with carrying amount of Shs 32,481,000 to secure borrowings granted to it.

The leasehold land was last valued at 30 June 2003 by Lloyd Masika Limited and Tysons Limited, registered valuers and estate agents on an open market basis. The market value of leasehold land at this date was Shs 149,150,000.

13 INTANGIBLE ASSETS

	2005 Shs'000	2004 Shs'000
COST		
At 1 July	38,119	36,019
Additions	379	2,100
At 30 June	38,498	38,119
AMORTISATION		
At 1 July	35,136	33,415
Amortisation for the year	1,033	1,721
At 30 June	36,169	35,136
NET BOOK VALUE		
At 30 June	2,329	2,983
	= = = = =	= = = = =

Continued

	2005 Shs'000	2004 Shs'000
14 INVESTMENT IN SUBSIDIARY COMPANIES		
Unga Investments Limited	1,321,457	1,195,311
	= = = = =	= = = = =

Details of the company's subsidiaries are as follows:

Name	Country of incorporation	Percentage holding %
Unga Investments Limited	Kenya	100.00

Unga Investments Limited has a 65% holding in its subsidiary, Unga Holdings Limited, which has the following subsidiaries:

Name	Country of incorporation	Percentage Holding %
Unga Limited	Kenya	100
Unga Feeds Limited	Kenya	100
Unga Farm Care (East Africa) Limited	Kenya	100
Unga Foods Limited	Kenya	100
Ungax Limited	Kenya	100
Unga Maize Millers Limited	Kenya	100
Bullpak Limited	Kenya	51
Unga Millers (Uganda) Limited	Uganda	80

Unga Farm Care (East Africa) Limited has a 100% holding in Unga Uganda Limited, incorporated in Uganda, and a 74% holding in Unga Farm Care (Tanzania) Limited, incorporated in Tanzania.

The agreement providing Seaboard Corporation with an option to subscribe additional shares in Unga Holdings Limited has been extended to 31 October 2008. If exercised in full, this would increase Seaboard's total shareholding in Unga Holdings to 50%.

	2005 Shs'000	2004 Shs'000
15 RETIREMENT BENEFITS ASSET		
At 1 July and 30 June	145,069	145,069
AMORTISATION		
At 1 July	13,888	4,836
Charge to the income statement	9,672	9,052
At 30 June	23,560	13,888
BOOK VALUE		
At 30 June	121,509	131,181
	= = = = =	= = = = =

Continued

15 RETIREMENT BENEFITS ASSET (Continued)

The retirement benefits asset represents the surplus of fair value of scheme assets over the value of past service pension benefits following an actuarial valuation carried out as at 31 December 2002. In accordance with a recommendation by the actuaries, the group is taking a contribution holiday for 15 years with effect from 1 January 2003.

The principal actuarial assumptions used in the valuation were:

Rate of interest	9%
Rate of salary escalation	7%
Rate of pension increases	0%

16 DEFERRED TAXATION

Deferred taxation is provided on all temporary differences under the liability method using the currently enacted rate of 30%. The net deferred taxation asset is made up as follows:

	2005 Shs'000	2004 Shs'000
Deferred tax assets:		
Tax losses available for offset against future profits	468,151	510,591
General provisions	38,885	30,669
Provision for service gratuity	11,542	14,263
Provision for leave pay	916	2,156
Unrealised exchange losses	-	2,311
Other timing differences	522	737
	<u>520,016</u>	<u>560,727</u>
Deferred tax liabilities:		
Revaluation surplus	(207,606)	(218,568)
Accelerated capital allowances	(136,140)	(123,899)
Unrealised exchange differences	(16,006)	-
	<u>(359,752)</u>	<u>(342,467)</u>
	<u>160,264</u>	<u>218,260</u>
	<u>(19,319)</u>	<u>(68,507)</u>
Deferred taxation asset not recognised	<u>140,945</u>	<u>149,753</u>
	= = = = =	= = = = =
Movement in the deferred taxation account is as follows:		
At 1 July	149,753	161,645
Exchange difference	(20)	235
Income statement charge	(8,788)	(12,127)
At 30 June	<u>140,945</u>	<u>149,753</u>
	= = = = =	= = = = =

Under the Kenya tax legislation, tax losses can be carried forward to perpetuity. However, the directors consider it prudent not to recognise any further deferred tax asset relating to tax losses until the future performance of the subsidiary can be predicted with reasonable certainty.

Notes to the Financial Statements



Continued

	2005 Shs'000	2004 Shs'000
17 PROPERTIES HELD FOR SALE		
At 1 July	92,086	63,000
Transfers from property, plant and equipment	4,524	33,304
Transfer from prepaid operating lease rentals	9,637	4,782
Disposals	(12,138)	(9,000)
	<u>94,109</u>	<u>92,086</u>
	= = = = =	= = = = =
18 INVENTORIES		
Finished products	175,297	173,363
Raw materials	817,145	896,687
Production supplies	53,737	53,069
Engineering stores	35,026	62,343
Goods in transit	60,277	80,076
Work in progress	34	1,141
	<u>1,141,516</u>	<u>1,266,679</u>
	= = = = =	= = = = =
19 TRADE AND OTHER RECEIVABLES		
GROUP		
Trade receivables	303,458	394,578
Other receivables and prepayments	142,580	111,024
	<u>446,038</u>	<u>505,602</u>
	= = = = =	= = = = =
COMPANY		
Other receivables	184	260
	= = = = =	= = = = =
20 DUE FROM SUBSIDIARY COMPANIES		
Unga Limited	1,291	3,000
Unga Investments Limited	95,821	96,754
Unga Feeds Limited	7,000	7,000
	<u>104,112</u>	<u>106,754</u>
	= = = = =	= = = = =
DUE FROM A RELATED COMPANY		
Nampak Holdings Limited	12	-
	= = = = =	= = = = =

Notes to the Financial Statements



Continued

	2005 Shs'000	2004 Shs'000
21 TERM DEPOSITS AND TREASURY BILLS		
GROUP		
Maturing within 90 days:		
Redemption value of treasury bills	-	7,000
Less: Unearned income	-	(1)
	<u>-</u>	<u>6,999</u>
Maturing within 180 days:		
Term deposits with banks	141,777	139,416
	<u>141,777</u>	<u>146,415</u>
	= = = = =	= = = = =
COMPANY		
Short term deposits with banks	28,962	28,306
	= = = = =	= = = = =
The effective interest rate on treasury bills as at 30 June 2005 was 1.7% (2004 - 1.7%), while the average interest rate applicable on bank deposits during the year was 1.5% (2004 - 1.50%).		
The term deposits are held as security by NIC Bank Limited for a loan of Shs 150 million advanced to a subsidiary company, Unga Limited.		
	2005 Shs'000	2004 Shs'000
22 SHARE CAPITAL		
Authorised:		
70,134,656 ordinary shares of Shs 5 each	350,673	350,673
Issued and fully paid:		
63,090,728 ordinary shares of Shs 5 each	315,454	315,454
	= = = = =	= = = = =
23 MINORITY INTEREST		
At 1 July	665,901	690,900
Exchange adjustment	1,101	(533)
Share of profit/(loss) for the year	51,950	(24,466)
	<u>718,952</u>	<u>665,901</u>
At 30 June	<u>718,952</u>	<u>665,901</u>
	= = = = =	= = = = =
The minority interest consists of:		
Unga Holdings Limited		
Held by Seaboard Corporation 35%	686,327	641,413
Bullpak Limited:		
Held by Nampak Holdings Limited 49%	32,625	24,488
	<u>718,952</u>	<u>665,901</u>
	= = = = =	= = = = =

Continued

	2005 Shs'000	2004 Shs'000
24 BORROWINGS		
Bank loan (secured)	228,948	306,328
Bank overdraft facilities (secured)	295,423	252,988
Loan from related company (unsecured)	7,920	22,620
Short term advance from a customer (unsecured)	-	50,000
	<u>532,291</u>	<u>631,936</u>
	= = = = =	= = = = =

The borrowings are repayable as follows:

On demand or within one year	493,966	541,623
In the second to fifth years	38,325	90,313
	<u>532,291</u>	<u>631,936</u>
	= = = = =	= = = = =

The average interest rates paid were as follows:

Bank overdraft facilities	13.50%	12.84%
Bank loans	7.69%	7.04%

Interests on bank borrowings are arranged at floating rates.

The bank loan and overdraft facilities are from several local banks. Security for these borrowings includes an all assets debenture for Shs 1.5 billion issued by a subsidiary company, corporate guarantees by group companies and legal charges over certain properties owned by group companies.

The loan from a related company is unsecured, interest free and has no fixed repayment terms.

The group has undrawn committed borrowing facilities amounting to Shs 69,776,000 (2004 - Shs 270,105,000). The borrowing facilities consist of loans and bank overdrafts.

	2005 Shs'000	2004 Shs'000
25 SERVICE GRATUITY		
At 1 July	47,543	61,351
Income statement charge	14,862	1,474
Paid during the year	(8,804)	(15,282)
	<u>53,601</u>	<u>47,543</u>
	= = = = =	= = = = =

The service gratuity represents the present value of future obligations for unionisable staff in accordance with the Collective Bargaining Agreement.

Continued

26 SHAREHOLDERS' LOAN

These are long term loans advanced by the minority shareholders to a subsidiary company. The loans are unsecured, interest free and are not repayable for the foreseeable future.

	2005 Shs'000	2004 Shs'000
27 TRADE AND OTHER PAYABLES		
GROUP		
Trade payables	390,139	476,693
Other payables and accruals	174,677	155,858
	<u>564,816</u>	<u>632,551</u>
	= = = = =	= = = = =
COMPANY		
Other payables and accruals	7,332	-
	<u>7,332</u>	<u>-</u>
	= = = = =	= = = = =
28 DUE TO RELATED COMPANIES		
Seaboard Overseas Management Company Limited	530,422	871,740
Seaboard Corporation	20,557	35,187
Nampak Kenya Limited	7,462	-
	<u>558,441</u>	<u>906,927</u>
	= = = = =	= = = = =

29 NOTES TO THE CASH FLOW STATEMENT

	2005 Shs'000	2004 Shs'000
(a) Reconciliation of operating profit to cash generated from operations		
Operating profit	225,115	28,445
Adjustments for:		
Depreciation	170,534	167,131
Amortisation of prepaid operating lease rentals	1,615	1,958
Amortisation of intangible assets	1,033	1,721
Write off of work in progress	389	-
Profit on disposal of properties held for sale	(15,850)	(3,118)
Profit on disposal of property, plant and equipment	(2,906)	(5,655)
Net foreign exchange losses	21,533	(2,616)
Retirement benefits charge	9,672	9,052
Indemnity provision	-	(35,187)
	<u>411,135</u>	<u>161,731</u>
Operating profit before working capital changes		

Continued

29 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2005 Shs'000	2004 Shs'000
Decrease/(increase) in inventories	128,037	(624,461)
Decrease/(increase) in trade and other receivables	60,968	(151,216)
Increase in short term deposits	(2,361)	(139,416)
(Decrease)/increase in trade and other payables	(66,745)	45,944
Movement in related company balance	(348,474)	662,995
Increase/(decrease) in service gratuity	6,058	(13,808)
Cash generated from/(used in) operations	188,618	(58,231)
	= = = = =	= = = = =
(b) Analysis of the balances of cash and cash equivalents as shown in the balance sheet		
Treasury bills	-	6,999
Cash and bank balances	72,741	83,986
Bank overdraft facilities	(228,948)	(252,988)
At 30 June	(156,207)	(162,003)
	= = = = =	= = = = =
(c) Analysis of loan balances		
Bank loans	295,423	306,328
Loan from related company	7,920	22,620
Short term advance from a customer	-	50,000
	303,343	378,948
	= = = = =	= = = = =
(d) Movement in loan balances		
At 1 July	378,948	285,348
Loans received	-	214,944
Loans repaid	(75,605)	(122,009)
	303,343	378,283
Accrued interest	-	665
At 30 June	303,343	378,948
	= = = = =	= = = = =
(e) Exchange adjustments on working capital		
Inventories	(2,875)	(19,169)
Trade and other receivables	(1,403)	(2,363)
Trade and other payables	(991)	(5,298)
	(5,269)	(26,830)
	= = = = =	= = = = =

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the bank repayable within three months from the date of advance.

Continued

30 RELATED PARTY TRANSACTIONS

By an agreement entered into on 17 March 2000 and later amended on 27 April 2002, the company is managed by Seaboard Overseas Management Company Ltd. Under this agreement Seaboard Overseas Management Company Limited provides technical and operational support including a resident management team. The agreement was for an initial term of five years and was to be extended for a further five-year term at the option of the management company. This has been extended for a further five year term.

A basic profit-based management fee, without a maximum, is currently payable, subject to a minimum of Shs 12 million per year. Seaboard Overseas Management Company Ltd is a related party by virtue of common shareholding.

	2005 Shs'000	2004 Shs'000
During the year the following transactions were entered into with related parties		
Purchase of goods/services:		
Raw material purchases	841,823	943,711
Management fee	12,000	12,000
Indemnity provision	-	35,187
Interest charged	5,762	2,102
	= = = = =	= = = = =

Amounts not settled as at the balance sheet date are disclosed in Notes 20, 24 and 28. Details of the indemnity provision are included in note 7.

31 FINANCIAL INSTRUMENTS

The nature of activities and policies with respect to financial instruments are:

Exchange risk

The group's operations are predominantly in Kenya, where the currency has been relatively stable against the major currencies.

A sizable portion of the group's purchases are denominated in foreign currencies, principally the US dollar. The group does not hedge its foreign currency risks.

Interest rate risk

The group has variable rate borrowings used to fund on going activities.

Credit risk

In the normal course of its business, the group incurs credit risk from customers. The credit risk is, however, managed through management's constant monitoring of the status of the credit worthiness of its customers. The group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Fair value

There is no material difference between the fair value and the carrying value of the group's financial assets and liabilities.

Continued

29 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2005 Shs'000	2004 Shs'000
Decrease/(increase) in inventories	128,037	(624,461)
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Continued

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Fair value

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Continued

	2005 Shs'000	2004 Shs'000
32 CAPITAL COMMITMENTS		
Commitments at the year end for which no provision has been made in these financial statements:		
GROUP		
Authorised but not contracted for	125,832 = = = = =	- = = = = =

33 CONTINGENT LIABILITIES

COMPANY

The company has a guarantee for Shs 1.5 billion in favour of Barclays Bank of Kenya Limited to secure the overdraft facilities to a subsidiary company, Unga Limited. The amount of facilities outstanding as at 30 June 2005, in respect of this guarantee, was Shs 239 million. The company has also guaranteed a loan to the subsidiary company of Shs 150 million from NIC Bank Limited.

The company also has a guarantee for Shs 510 million in favour of Standard Chartered Bank Kenya Limited to secure overdraft facilities of a subsidiary company, Unga Feeds Limited. The amount of facilities outstanding as at 30 June 2005, in respect of this guarantee, was Shs 92 million.

34 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

35 CURRENCY

The financial statements are presented in Kenya Shillings thousands (Shs'000).