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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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1. Unga Group Limited
2. Corn Industry - Kenya - Periodicals



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
- I Ochola-Wilson (Mrs.)

*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

2007/1150

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Seventy Ninth Annual General Meeting of the Company will be held at Grand Regency Centre, Grand Regency Hotel, Loita Street, Nairobi on Thursday, 23 November 2006 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 Eighth Annual General Meeting held on 23rd November 2005.
3. To receive the Chairman's report.
4. To receive and adopt the Audited Financial Statements for the financial year ended 30 June 2006, 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 2006.
6. Election of Directors:-
 - i) Mr Jeremiah Gitau Kiereini 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 Andrew Stewart Mwangi Ndegwa 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 Richard Kemoli, who has attained the age of 70 years, retires in accordance with Section 186 (2) of the Companies Act (Cap 486). Special Notice is hereby given that a notice has been received in accordance with Sections 142 and 186 (5) of the Companies Act that it is intended to pass the following resolution as an ordinary resolution:
"That Mr Richard Kemoli, who has attained the age of 70 years be and is hereby re-elected a director of the Company".
 - iv) Mrs Isabella Ochola-Wilson retires in accordance with Article 93 of the Company's Articles of Association and, being eligible, offers herself for re-election.
7. To approve the Directors' remuneration as shown in the Financial Statements for the year ended 30 June 2006.
8. To note that Messrs Deloitte & Touche continue in office as Auditors under Section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

9. Amendment to the Articles of Association of the Company
To consider and, if thought fit, pass the following resolution as a special resolution:-
That Article 129 of the Company's Articles of Association be amended by substituting the word '**twelve**' on the fourth line with the word '**six**'. The Article will therefore read as follows:-
"The payment by the Directors of any unclaimed dividend into an unclaimed dividend account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company".

BY ORDER OF THE BOARD

J L G Maonga
SECRETARY

11 October 2006

Notes:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. To be valid, a form of proxy, which is provided with this report, must be duly completed by the member and must be lodged at the Company's Offices, Ngano House, Commercial Street, Industrial Area, P O Box 30096, 00100-Nairobi, or posted in time to reach not later than 10.00 a.m. on 22 Nov. 2006.

Chairman's Statement



TRADING PERFORMANCE

Overview

The Unga Group consolidated its recovery in 2006, and is well positioned to take advantage of a more buoyant economy in the coming year.

The balance sheet is stronger, problem areas have been identified and addressed, and plans are well advanced to broaden the product range, improve distribution coverage, increase margins through better cost and pricing efficiencies, and enhance customer service performance.

The year was not without its difficulties. External factors such as avian flu, power failures, non-availability of key materials and negative exchange rates severely impacted different sections of the business at various times. While these factors negatively affected some results, the overall profitability achieved underscores the inherent strength of the Group's structure, brand and market position, and spread of activities.

While external challenges continue to impact the business, the Group goes forward in good shape and with a view to growth through an active drive for acquisitions and partnerships.

Financial Highlights

Turnover was down 3% from Kshs 7.6 billion in 2005 to Kshs 7.3 billion, but operating profit was marginally up at Kshs 229 million.

Pre-tax and net profits were down to Kshs 142 million and Kshs 37 million respectively, yet liabilities were reduced by Kshs 353 million.

Operating and administrative costs have been reduced by 9% to Kshs 636 million.

The Board believes these results, in conjunction with ongoing management action, are steps in a positive term trend.

SUBSIDIARY COMPANY PERFORMANCE

External factors led to quite widely differing results among the Group's subsidiaries and variations in product line performance – the Human Foods sector benefiting from lower raw material prices and improved distribution, while the Animal Health and Nutrition business was adversely affected by market alarm over avian flu and a shortage of raw materials of the right quality to meet the Group's production standards. Foreign exchange rates were particularly punitive in Uganda.

Unga Limited

Growth in wheat products more than off-set a decline in maize-based goods. The net gain in volumes, lower input costs, keen attention to finished product pricing, and property sales allowed a 47% rise in pre-tax profits.

Unga Farm Care (EA) Limited

Both the dairy and poultry divisions had excellent volume growth in the early part of the year, but market concerns over avian flu caused a severe downturn and depressed the annual result. Volume recovery in animal health products has been prioritized.

Unga Millers (U) Limited

Production was seriously affected by power shortages and the exchange rates between the Uganda shilling and the Kenya shilling/US dollar were unfavourable.

BULLPAK LIMITED

A period of production capacity constraint reduced overall volumes, but cost savings through relocation of the factory to Thika enabled positive trading and a 29% increase in pre-tax profit.

Chairman's Statement (continued)

CORPORATE SOCIAL RESPONSIBILITY

Across all subsidiaries, in what remains an exceptionally price-sensitive region with many random competitive elements, it is increasingly clear that in addition to cost-quality balances, customer service can and must be a distinctive basis of Unga's premium position. This is now a Group-wide policy and a dedicated Customer Service Department has been established to drive it.

"Customers" do not exist in isolation from their wider communities or society as a whole and Service excellence requires not only diligence and systems, but a positive corporate culture. The Group's ability to deliver a distinctive quality of service therefore must and will embrace not only quality control and staff training and motivation, but also take a more proactive approach to corporate-social issues to build a corporate reputation that both staff and the public can be proud of.

The Group has several existing programmes addressing staff welfare, including VCT and HIV/AIDS awareness seminars for all employees including temporary staff (and by extension their families and communities). The Group continues to participate in the "Neighbours Against HIV/AIDS" programme which sponsors food and health care support for orphans at Mukuru Promotional Centre.

Workplace safety is an ongoing commitment which this year included defensive driver training and free vision testing backed by a loan fund for corrective action. The Group's safety indices continue to improve in all areas.

A further indicator of Group spirit is that staff themselves have taken numerous social initiatives, including donations to support Christmas visits and gifts to an orphanage in Eldoret, participated in a roadside clean-up campaign in Nakuru, and established the Unga Exe[®] Football Club in Eldoret.

The Group has formalised a succession and career planning process, and introduced a job profiling initiative.

Group policy in general, and the Customer Service Department in particular, will energize these and related activities in the coming year.

FUTURE OUTLOOK

There will be a major review of distribution systems in Unga Limited and Unga Farm Care (EA) Limited, and a commitment to make whatever changes are necessary to ensure the "route-to-market" gives improved coverage and trade margins, in conjunction with cost reductions.

The animal health product portfolio will be expanded and supported by a dedicated sales team.

Acquisitions and partnership opportunities will be explored, evaluated and actively pursued with a view to expanding the Group's food and animal health and nutrition businesses.

THE BOARD, MANAGEMENT AND STAFF

Mrs Isabella Ochola-Wilson was appointed to the Board in June to fill a vacancy. She previously worked with Johnson & Johnson (K) Limited and Kenya Wildlife Services, is a director of several companies and institutions, and I am confident the Group will benefit considerably from the skills and experience she brings.

I take this opportunity to thank the Directors, Management and employees for the commitment and energy of their work in the past year; their efforts and the continued support of suppliers and customers have enabled the Group to overcome challenges, achieve positive results, and hold a strong position for the year ahead.

R Kemoli
Chairman

28th September 2006

Corporate Governance

The Unga Group complies fully with all requirements of a publicly listed company, including clarity of financial reporting and accountability to shareholders, and aims to set best practice standards in product and service quality and fair conduct towards its staff, suppliers and customers.

The Group recognizes its responsibilities of good citizenship in the national and international communities, especially with regard to social welfare, environmental care, economic value and principles of integrity.

Role of the Board

The Board holds the Group's long-term vision, sets broad goals, plans and organizational policies to uphold it, and it offers guidance on strategic decisions and actions of management.

Composition of the Board

The Board has one executive and seven non-executive Directors, three of whom retire by rotation each year but are eligible for re-election. The Managing Director is Mr. Hutchinson.

Other Board Information

The roles of the Chairman and Chief Executive are clearly separated, to ensure true accountability of management to shareholders through the Board, in parallel with equally sure autonomy and authority of management in the day-to-day operation of the Group. Directors are kept fully informed of all company activities through both regular and special event reports.

Board Meetings

The Board has four scheduled meetings per year and meets as necessary to deliberate on specific or urgent matters. In the period under review, the Board met four times.

Board Committees

Under its mandate to establish appropriate committees for technical or other specialized issues, the Board currently operates an Audit Committee of Mr Kiereini (Chairman), Mr Kibet and Mr Ndegwa, which met four times in the year under review, and a Nominating and Remuneration Committee of Mr Kibet (Chairman), Mr Kemoli, Mr Kiereini and Mr Ndegwa, which met once.

Communication

The Board receives management reports in advance of all scheduled meetings and as necessary at other times. The Board issues an Annual Report and Financial Statements to all shareholders and other interested parties, and keeps the public advised through half-yearly and annual press notices of results and any significant developments. Shareholders have direct access to the company in line with conventional business practices.

Directors benefits and loans

In the year under review, Directors have received no benefits other than fees and no loans to directors have been advanced.

Corporate Governance (continued)

Directors' Interest

Name	No. of shares
Alan McKittrick	11,227

Distribution of shareholders

Shareholding (No. of shares)	No. of shareholders
Less than 1,000	4,248
1,001 – 5,000	2,218
5,001 – 10,000	533
10,001 – 100,000	423
100,001 – 1,000,000	28
1,000,001 and above	2
Total	7,452

Major Shareholders

The top 10 shareholders as at 30 June 2006 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. Mr Alimohamed Adam	872,785	1.38
4. Kingsway Nominees Limited	869,379	1.38
5. Savitaben Velji Raichand Shah	621,398	0.98
6. Mr Mohamed Aslam Alimohamed Adam	327,398	0.52
7. Goodwill (Nairobi) Limited A/C M01102	295,100	0.47
8. DSL Nominees Ltd A/C 2210	277,637	0.44
9. Stanbic Nominees Kenya Limited A/C R48701	271,420	0.43
10. Awnali Rajabali Datto	261,158	0.41

R Kemoli
Director

N Hutchinson
Director

28 September 2006.

Report of Directors

The directors present their report together with the audited financial statements of the group for the year ended 30 June 2006.

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 crop protection products.

	2006 Shs'000	2005 Shs'000
GROUP RESULTS		
Profit before taxation	142,427	155,017
Taxation charge	(77,826)	(30,525)
Profit before minority interests	64,601	124,492
Minority interests	(27,762)	(51,950)
Net profit for the year	36,839	72,542

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.

Mrs Isabella Ochola-Wilson was appointed director with effect from 13 June 2006.

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 LG Maonga
SECRETARY

28 September 2006

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

N Hutchinson
Director

28 September 2006

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

Tel: + (254 - 20) 444 1344/05-12
Fax + (254 - 20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

Independent Auditors' Report to the Members of Unga Group Limited

We have audited the financial statements on pages 11 to 38 for the year ended 30 June 2006 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 9, 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:

- (a) proper books of account have been kept by the company and the company's balance sheet is in agreement there with;
- (b) the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2006 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.

Deloitte & Touche

28th September 2006

Audit • Tax • Consulting • Financial Advisory •

**A Member firm of
Deloitte & Touche Tohmatsu**

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

* British

**Consolidated Income Statement
For the Year ended 30 June 2006**



	Notes	2006 Shs'000	2005 Shs'000
TURNOVER		7,305,958	7,558,509
COST OF SALES		(6,515,949)	(6,669,568)
GROSS PROFIT		790,009	888,941
OTHER OPERATING INCOME		74,594	33,479
DISTRIBUTION COSTS		(309,101)	(322,835)
ADMINISTRATIVE EXPENSES		(300,101)	(291,804)
OTHER OPERATING EXPENSES		(26,609)	(82,666)
OPERATING PROFIT	5	228,792	225,115
FINANCE COSTS - NET	7	(86,365)	(70,098)
PROFIT BEFORE TAXATION		142,427	155,017
TAXATION CHARGE	8	(77,826)	(30,525)
PROFIT BEFORE MINORITY INTERESTS		64,601	124,492
MINORITY INTERESTS	23	(27,762)	(51,950)
NET PROFIT FOR THE YEAR	9	36,839	72,542
EARNINGS PER SHARE – BASIC/DILUTED	10	Sh 0.58	Sh 1.15

Consolidated Balance Sheet 30 June 2006

	Notes	2006 Shs'000	2005 Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	11	1,489,051	1,631,709
Prepaid operating lease rentals	12	49,745	52,896
Intangible assets	13	1,224	2,329
Retirement benefits asset	15	132,738	121,509
Deferred taxation asset	16	77,718	140,945
		<u>1,750,476</u>	<u>1,949,388</u>
Current assets			
Properties held for sale	17	21,524	94,109
Inventories	18	834,754	1,141,516
Trade and other receivables	19	608,712	446,038
Due from a related company	20	-	12
Taxation recoverable	8(c)	27,773	27,138
Term deposits	21	143,586	141,777
Cash and bank balances		203,344	72,741
		<u>1,839,693</u>	<u>1,923,331</u>
Total assets		<u>3,590,169</u>	<u>3,872,719</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	315,454	315,454
Share premium		73,148	73,148
Revaluation surplus		528,570	552,829
Revenue reserve		531,026	465,970
Equity attributable to equity holders of the parent		<u>1,448,198</u>	<u>1,407,401</u>
Minority interests	23	<u>748,412</u>	<u>718,952</u>
Total equity		<u>2,196,610</u>	<u>2,126,353</u>
Non current liabilities			
Borrowings	24	37,344	38,325
Service gratuity	25	51,696	53,601
Shareholders' loans	26	58	61
		<u>89,098</u>	<u>91,987</u>
Current liabilities			
Trade and other payables	27	509,713	564,816
Unclaimed dividends		21,482	21,507
Due to related companies	28	438,574	558,441
Borrowings	24	327,549	493,966
Taxation payable	8(c)	7,143	15,649
		<u>1,304,461</u>	<u>1,654,379</u>
Total equity and liabilities		<u>3,590,169</u>	<u>3,872,719</u>

The financial statements on pages 11 to 38 were approved by the board of directors on 28th September 2006 and were signed on its behalf by:

R Kemoli **Director**
N Hutchinson **Director**

Company Balance Sheet 30 June 2006

	Notes	2006 Shs'000	2005 Restated Shs'000
ASSETS			
Non current assets			
Investments in subsidiary companies	14	1,297,335	1,297,335
Current assets			
Other receivables	19	376	184
Due from subsidiary companies	20	110,654	104,112
Taxation recoverable		2,308	2,247
Term deposits and treasury bills	21	29,303	28,962
		142,641	135,505
Total assets		1,439,976	1,432,840
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	315,454	315,454
Share premium		73,148	73,148
Revenue reserve		1,044,715	1,036,906
		1,433,317	1,425,508
Current liabilities			
Other payables	27	6,659	7,332
Total equity and liabilities		1,439,976	1,432,840

The financial statements on pages 11 to 38 were approved by the board of directors on 28th September 2006 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 2006



	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Equity attributable to equity holders Sh'000	Minority interests Sh '000	Total Sh'000
At 1 July 2004	315,454	73,148	576,670	367,542	1,332,814	665,901	1,998,715
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	1,101	3,146
Net profit for the year	-	-	-	72,542	72,542	51,950	124,492
At 30 June 2005	<u>315,454</u>	<u>73,148</u>	<u>552,829</u>	<u>465,970</u>	<u>1,407,401</u>	<u>718,952</u>	<u>2,126,353</u>
At 1 July 2005	315,454	73,148	552,829	465,970	1,407,401	718,952	2,126,353
Transfer of excess depreciation	-	-	(19,904)	19,904	-	-	-
Deferred taxation on excess depreciation	-	-	5,971	(5,971)	-	-	-
Revaluation surplus realised on disposal of property, plant and equipment	-	-	(14,751)	14,751	-	-	-
Deferred tax on realised revaluation surplus	-	-	4,425	(4,425)	-	-	-
Exchange adjustment	-	-	-	3,958	3,958	1,698	5,656
Net profit for the year	-	-	-	36,839	36,839	27,762	64,601
At 30 June 2006	<u>315,454</u>	<u>73,148</u>	<u>528,570</u>	<u>531,026</u>	<u>1,448,198</u>	<u>748,412</u>	<u>2,196,610</u>

The revaluation surplus is not distributable and represents the surplus arising from the revaluation of property, plant and equipment.

**Company Statement of Changes in Equity
For the Year ended 30 June 2006**



	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Revenue reserve Shs'000	Total Shs'000
At 1 July 2004					
- As previously stated	315,454	73,148	702,950	241,262	1,332,814
Prior year adjustment	-	-	(702,950)	804,974	102,024
- As restated	315,454	73,148	-	1,046,236	1,434,838
Net loss for the year	-	-	-	(9,330)	(9,330)
At 30 June 2005	315,454	73,148	-	1,036,906	1,425,508
At 1 July 2005					
- As previously stated	315,454	73,148	702,950	358,078	1,449,630
Prior year adjustment	-	-	(702,950)	678,828	(24,122)
- As restated	315,454	73,148	-	1,036,906	1,425,508
Net profit for the year	-	-	-	7,809	7,809
At 30 June 2006	315,454	73,148	-	1,044,715	1,433,317

The prior year adjustment is as a result of the revision of International Accounting Standard No 27 - Consolidated and Separate Financial Statements, which now requires investment in subsidiaries to be stated at cost in the company's separate financial statements.

Consolidated Cash Flow Statement For the Year Ended 30 June 2006



	Notes	2006 Shs'000	2005 Shs'000
OPERATING ACTIVITIES			
Cash generated from operations	29(a)	332,258	188,618
Interest received		2,226	1,935
Interest paid		(82,812)	(94,235)
Taxation paid		(23,870)	(20,483)
Net cash generated from operating activities		227,802	75,835
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(36,614)	(28,237)
Proceeds on disposal of property, plant and equipment		6,671	6,585
Purchase of intangible assets		-	(379)
Proceeds on disposal of properties held for sale		98,445	26,998
Net cash generated from investing activities		68,502	4,967
FINANCING ACTIVITIES			
Loans received	29(d)	100,000	-
Loans repaid	29(d)	(64,656)	(75,605)
Dividends paid		(25)	-
Net cash generated from/(used in) financing activities		35,319	(75,605)
INCREASE IN CASH AND CASH EQUIVALENTS		331,623	5,197
CASH AND CASH EQUIVALENTS AT 1 JULY		(156,206)	(162,003)
Exchange adjustment		1,721	599
CASH AND CASH EQUIVALENTS AT 30 JUNE	29(b)	177,138	(156,207)

Notes to the Financial Statements For the Year Ended 30 June 2006



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 have been prepared on the historical cost basis of accounting, as modified to include the revaluation of certain assets.

Adoption of new and revised International Financial Reporting Standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the company where relevant to its operations. Except for the change in IAS 27 which has required investment in subsidiaries to be stated at cost in the company's separate financial statements, the adoption of the other revised standards had no effect on the amounts reported for the current or prior years. These changes in presentation and disclosure were as follows:

- IAS 1 has required;
 - minority interest to be shown as part of equity,
 - management judgements and key sources of estimation and uncertainty at the balance sheet date to be disclosed in the financial statements.
- IAS 10 has affected the presentation of proposed dividends
- IAS 16 has required the disclosure of comparative figures for movements in property and equipment
- IAS 24 has required the disclosure of the compensation of key management personnel
- IAS 27 has required investment in subsidiaries to be stated at cost in the company's separate financial statements.

At the date of authorisation of these financial statements, IFRS 6 on Exploration for and Evaluation of Mineral Assets and IFRS 7 on Financial Instruments Disclosures were in issue but not yet effective. The adoption of these Standards, when effective, will have no material impact on the financial statements of the company.

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements (continued)

1 ACCOUNTING POLICIES (Continued)

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment where applicable.

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%
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.

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.

Notes to the Financial Statements (continued)

1 ACCOUNTING POLICIES (Continued)

Leases

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

Non-current assets held for sale

The group classifies a non-current asset as held for sale if, and only if, its carrying amount will be recovered principal through a sale transaction rather than through continuing use.

Non current assets held for sale are measured at the lower of their carrying amounts and fair values less estimated selling costs at the balance sheet date.

Impairment loss arising from any subsequent write-down of the carrying amount of an asset identified for sale to fair value less costs to make the sale is charged to the income statement in the year in which the loss is identified.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred 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 the 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.

Term deposits

Term deposits, which are held to maturity, are stated at amortised cost.



Notes to the Financial Statements (continued)

4 SEGMENTAL REPORTING

YEAR ENDED 30 JUNE 2006

(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	5,278,056	1,982,876	45,026	-	7,305,958
Inter-segment sales	185,165	33,003	205,351	(423,519)	-
Total revenue	5,463,221	2,015,879	250,377	(423,519)	7,305,958
RESULTS					
Operating profit	260,787	(63,124)	31,129	-	228,792

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	13,723	22,069	822	36,614
Depreciation	113,358	37,549	13,999	164,906
Amortisation - Intangible assets	245	860	-	1,105
- Operating lease rentals	1,522	38	-	1,560
Segment assets	2,516,363	983,837	89,969	3,590,169
Segment liabilities	1,050,041	320,513	23,005	1,393,559

(b) Secondary reporting format – Geographical segments

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

Notes to the Financial Statements (continued)

1 ACCOUNTING POLICIES (Continued)

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.

Non-current assets held for sale

The group classifies a non-current asset as held for sale if, and only if, its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non current assets held for sale are measured at the lower of their carrying amounts and fair values less estimated selling costs at the balance sheet date.

Impairment loss arising from any subsequent write-down of the carrying amount of an asset identified for sale to fair value less costs to make the sale is charged to the income statement in the year in which the loss is identified.

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.

Term deposits

Term deposits, which are held to maturity, are stated at amortised cost.

Notes to the Financial Statements (continued)

1 ACCOUNTING POLICIES (Continued)

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 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. The scheme is valued once every three years: the last valuation was as at 31 December 2005.

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.

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.

Notes to the Financial Statements (continued)

1 ACCOUNTING POLICIES (Continued)

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.

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).

Comparatives

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

2 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

Impairment losses

At each balance sheet date, the company 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 amount 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 company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant and equipment

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

3 GOING CONCERN

As at 30 June 2006, a subsidiary group, Unga Holdings Limited, had a consolidated revenue deficit of Kshs 395,787,000 which was primarily attributable to trading losses in its subsidiaries 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 and procurement efficiencies, controlled administrative costs and, increased distribution coverage; it is expected that these measures will result in improved profitability.

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

Notes to the Financial Statements (continued)

4 SEGMENTAL REPORTING

YEAR ENDED 30 JUNE 2006

(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	5,278,056	1,982,876	45,026	-	7,305,958
Inter-segment sales	185,165	33,003	205,351	(423,519)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	5,463,221	2,015,879	250,377	(423,519)	7,305,958
	=====	=====	=====	=====	=====
RESULTS					
Operating profit	260,787	(63,124)	31,129	-	228,792
	=====	=====	=====	=====	=====

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	13,723	22,069	822	36,614
Depreciation	113,358	37,549	13,999	164,906
Amortisation - Intangible assets	245	860	-	1,105
- Operating lease rentals	1,522	38	-	1,560
Segment assets	2,516,363	983,837	89,969	3,590,169
Segment liabilities	1,050,041	320,513	23,005	1,393,559
	=====	=====	=====	=====

(b) Secondary reporting format – Geographical segments

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

Notes to the Financial Statements (continued)

4 SEGMENTAL REPORTING (continued)

YEAR ENDED 30 JUNE 2005

(b) 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)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	5,808,535	1,927,487	255,377	(432,890)	7,558,509
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
RESULTS					
Operating profit	226,607	(17,640)	16,148	-	225,115
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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 - Intangible assets	161	872	-	1,033
- Operating lease rentals	114	-	1,615	
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
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

(b) Secondary reporting format – Geographical segments

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

Notes to the Financial Statements (continued)

	2006 Shs'000	2005 Shs'000
5 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Staff costs (note 6)	290,693	303,697
Depreciation (note 11)	164,906	170,534
Amortisation of prepaid operating lease rentals (note 12)	1,560	1,615
Amortisation of intangible assets (note 13)	1,105	1,033
Directors' emoluments - fees	1,860	1,866
- other	8,891	13,787
Auditors' remuneration	6,179	5,373
and after crediting:		
Profit on disposal of properties held for sale	(25,860)	(15,850)
Profit on disposal of property, plant and equipment	(3,837)	(2,906)
Actuarial surplus on retirement benefit asset	(15,807)	-
	=====	=====
6 STAFF COSTS		
Salaries and wages	280,044	272,976
Pension costs – amortisation defined benefit scheme	4,578	9,672
Pension costs – contribution defined benefit scheme	241	310
Service gratuity	4,908	9,427
Social security costs (NSSF)	922	958
Restructuring costs	-	10,354
	=====	=====
	290,693	303,697
	=====	=====
7 FINANCE COSTS - NET		
Interest receivable:		
Deposits and bank balances	(2,226)	(1,935)
	=====	=====
Net foreign exchange losses/(gains)	5,779	(21,537)
Interest payable:		
Bank overdraft facilities	26,389	26,421
Bank loans	26,984	24,341
Other	29,439	42,808
	=====	=====
	82,812	93,570
	=====	=====
	86,365	70,098
	=====	=====

Notes to the Financial Statements (continued)

8 TAXATION

	2006 Shs'000	2005 Shs'000
(a) Taxation charge		
Current taxation based on the chargeable profit for the year at 30%	14,155	21,737
Prior year under provision	574	-
	<u>14,729</u>	<u>21,737</u>
Deferred taxation (note 16)		
Charge for the year	63,717	8,245
Prior year (over)/under provision	(620)	543
	<u>63,097</u>	<u>8,788</u>
	<u>77,826</u>	<u>30,525</u>
(b) Reconciliation of taxation charge to the expected tax based on accounting profit		
Accounting profit before taxation	<u>142,427</u>	<u>155,017</u>
Tax charge at the applicable rate of 30%	42,728	46,505
Tax effect of expenses not allowable for tax	17,333	35,733
Tax effect of income not subject to tax	(2,476)	(6,453)
Prior year current tax under provisions	574	-
Prior year deferred tax over provision	(620)	543
Deferred taxation credit not recognised	35,563	2,828
Previously unrecognised deferred tax now recognised	(15,276)	(48,631)
Taxation charge	<u>77,826</u>	<u>30,525</u>
(c) Taxation payable/recoverable		
At beginning of the year:		
Payable	15,649	14,424
Recoverable	(27,138)	(27,167)
	<u>(11,489)</u>	<u>(12,743)</u>
Charge for the year	14,729	21,737
Payments during the year	(23,870)	(20,483)
	<u>(20,630)</u>	<u>(11,489)</u>
Comprising:		
Payable	7,143	15,649
Recoverable	(27,773)	(27,138)
	<u>(20,630)</u>	<u>(11,489)</u>

9 PROFIT FOR THE YEAR

A profit of Shs 7,809,000 (2005 – loss of Shs 9,330,000) has been dealt with in the books of Unga Group Limited

10 EARNINGS PER SHARE

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

	2006	2005
Net profit for the year attributable to shareholders (Shs '000)	36,839	72,542
Weighted average number of ordinary shares	63,090,728	63,090,728
Basic earnings per share	Shs 0.58	Shs 1.15
	<u>=====</u>	<u>=====</u>

Diluted earnings per share is the same as basic earnings per share.

Notes to the Financial Statements (continued)

11 PROPERTY, PLANT AND EQUIPMENT GROUP

	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
As 1 July 2005	535,612	1,936,316	-	2,471,928
Exchange adjustments	(1,612)	(13,047)	-	(14,659)
Additions	-	36,614	-	36,614
Disposals	(1,000)	(20,479)	-	(21,479)
At 30 June 2006	533,000	1,939,404	-	2,472,404
Comprising:				
Valuation in 2003	517,345	1,201,713	-	1,719,058
Cost	15,655	737,691	-	753,346
	533,000	1,939,404	-	2,472,404
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
At 1 July 2005	37,316	802,903	-	840,219
Exchange adjustments	(230)	(2,897)	-	(3,127)
Charge for the year	16,450	148,456	-	164,906
Eliminated on disposals	(10)	(18,635)	-	(18,645)
At 30 June 2006	53,526	929,827	-	983,353

Notes to the Financial Statements (continued)

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

GROUP

	Leasehold buildings Shs'000	Plant, machinery, motor vehicles and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
NET BOOK VALUE				
At 30 June 2006	479,474 =====	1,009,577 =====	- =====	1,489,051 =====
At 30 June 2005	498,296 =====	1,133,413 =====	- =====	1,631,709 =====
NET BOOK VALUE (Cost basis)				
At 30 June 2006	184,045 =====	724,102 =====	- =====	908,147 =====
At 30 June 2005	193,975 =====	849,842 =====	- =====	1,043,817 =====

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 of Shs 508,758,000 (2005 - Shs 551,710,000) to secure borrowings granted to it (note 24).

Notes to the Financial Statements (continued)

	2006 Shs'000	2005 Shs'000
12 PREPAID OPERATING LEASE RENTALS		
GROUP		
COST		
At 1 July	58,928	70,406
Exchange adjustment	(1,611)	(616)
Transfer to properties held for sale	-	(10,862)
At 30 June	57,317	58,928
AMORTISATION		
At 1 July	6,032	6,010
Exchange adjustments	(20)	(368)
Amortisation for the year	1,560	1,615
Transfer to properties held for sale	-	(1,225)
At 30 June	7,572	6,032
NET BOOK VALUE		
At 30 June	49,745	52,896

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.

	2006 Shs'000	2005 Shs'000
13 INTANGIBLE ASSETS		
GROUP		
COST		
At 1 July	38,498	38,119
Additions	-	379
At 30 June	38,498	38,498
AMORTISATION		
At 1 July	36,169	35,136
Amortisation for the year	1,105	1,033
At 30 June	37,274	36,169
NET BOOK VALUE		
At 30 June	1,224	2,329

Notes to the Financial Statements (continued)

14 INVESTMENT IN SUBSIDIARY COMPANIES

Unquoted investment at cost in wholly owned subsidiary:

	2006 Shs'000	2005 Restated Shs'000
Unga Investments Limited	1,297,335 =====	1,297,335 =====

The restatement of prior year balance is as a result of the revision of International accounting Standard No 27 - Consolidated and Separate Financial Statements, which now requires investment in subsidiaries to be stated at cost less impairment in the company's separate financial statements.

Details of the company's subsidiaries are as follows:

Name	Share capital Shs '000	Country of incorporation	Principal activity	Percentage holding
Unga Investments Limited	22,200	Kenya	Operates as a holding and an investment company.	100%

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

Company	Share capital Sh '000	Country of Incorporation	Principal activity	Percentage holding
Unga Limited	220,000	Kenya	Milling and sale of wheat and maize.	100%
Unga Farm Care (East Africa) Limited	22,520	Kenya	Manufacture and distribution of animal health and crop protection products, animal feeds and mineral supplements.	100%
Unga Feeds Limited	42,300	Kenya	Dormant company.	100%
Unga Foods Limited	15,400	Kenya	Dormant company.	100%
Ungax Limited	16,000	Kenya	Dormant company.	100%
Unga Maize Millers Limited	48,000	Kenya	Dormant company.	100%
Bullpak Limited	4,760	Kenya	Manufacture, distribution and sale of packaging material for wheat and maize flour products	51%
Unga Millers (Uganda) Limited	Ush 231,881	Uganda	Milling and sale of wheat and maize, and distribution of animal feeds.	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%.

Notes to the financial statements (continued)

15 RETIREMENT BENEFITS ASSET

	2006 Shs'000	2005 Shs'000
GROUP		
At 1 July	121,509	131,181
Surplus arising from actuarial valuation during the year	15,807	-
	<u>137,316</u>	<u>131,181</u>
Amortisation for the year	(4,578)	(9,672)
At 30 June	<u>132,738</u>	<u>121,509</u>

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 2005. In accordance with a recommendation by the actuaries, the group is taking a contribution holiday for 15 years with effect from 1 January 2006. The length of the contribution holiday is subject to review at every valuation date based on advice of the actuaries. The next valuation is due as at 31 December 2008.

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%.

	2006 Shs'000	2005 Shs'000
GROUP		
The net deferred taxation asset is made up as follows:		
Deferred tax assets:		
Tax losses available for offset against future profits	388,009	468,151
General provisions	40,685	38,885
Provision for service gratuity	15,509	11,542
Provision for leave pay	3,135	916
Other timing differences	510	522
	<u>447,848</u>	<u>520,016</u>
Deferred tax liabilities:		
Revaluation surplus	(197,948)	(207,606)
Accelerated capital allowances	(122,414)	(136,140)
Unrealised exchange differences	(2,935)	(16,006)
	<u>(323,297)</u>	<u>(359,752)</u>
	124,551	160,264
Deferred taxation asset not recognised	(46,833)	(19,319)
	<u>77,718</u>	<u>140,945</u>

Notes to the Financial Statements (continued)

	2006 Shs'000	2005 Shs'000
16 DEFERRED TAXATION (Continued)		
Movement in the deferred taxation account is as follows:		
At 1 July	140,945	149,753
Exchange difference	(130)	(20)
Income statement charge (note 8 (a))	(63,097)	(8,788)
At 30 June	<u>77,718</u>	<u>140,945</u>
	=====	=====

Tax losses relate mainly to losses in two subsidiaries, Unga Limited and Unga Farm Care (EA) Limited. Under Kenyan tax legislation, tax losses can be carried forward to perpetuity. The company performance of Unga Limited has improved and the deferred tax asset has been recognised in the current year. However, the directors consider it prudent not to recognise any deferred tax asset relating to tax losses in Unga Farm Care (EA) Limited until the future performance of this subsidiary can be predicted with reasonable certainty.

17 PROPERTIES HELD FOR SALE

	2006 Shs'000	2005 Shs'000
GROUP		
At 1 July	94,109	92,086
Transfers from property, plant and equipment	-	4,524
Transfer from prepaid operating lease rentals	-	9,637
Disposals	(72,585)	(12,138)
	<u>21,524</u>	<u>94,109</u>
	=====	=====

18 INVENTORIES

GROUP		
Finished products	157,423	175,297
Raw materials	476,709	817,145
Production supplies	53,302	53,737
Engineering stores	53,220	35,026
Goods in transit	94,100	60,277
Work in progress	-	34
	<u>834,754</u>	<u>1,141,516</u>
	=====	=====

19 TRADE AND OTHER RECEIVABLES

GROUP		
Trade receivables	363,882	303,458
Other receivables and prepayments	<u>244,830</u>	<u>142,580</u>
	<u>608,712</u>	<u>446,038</u>
	=====	=====
COMPANY		
Other receivables	<u>376</u>	<u>184</u>
	=====	=====

Notes to the Financial Statements (continued)

	2006 Shs'000	2005 Shs'000
20 DUE FROM SUBSIDIARY COMPANIES		
COMPANY		
Unga Limited	9,194	1,291
Unga Investments Limited	94,460	95,821
Unga Feeds Limited	7,000	7,000
	<u>110,654</u>	<u>104,112</u>
	=====	=====
DUE FROM A RELATED COMPANY		
Nampak Holdings Limited	-	12
	<u>-</u>	<u>12</u>
	=====	=====
21 TERM DEPOSITS		
GROUP		
Maturing within 180 days:		
Term deposits with banks	143,586	141,777
	<u>143,586</u>	<u>141,777</u>
	=====	=====
COMPANY		
Short term deposits with banks	29,303	28,962
	<u>29,303</u>	<u>28,962</u>
	=====	=====

The effective interest rate on bank deposits as at 30 June 2006 was 1.77% (2005 – 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.

	2006 Shs'000	2005 Shs'000
22 SHARE CAPITAL		
Authorised:		
70,134,656 ordinary shares of Shs 5 each	350,673	350,673
	<u>350,673</u>	<u>350,673</u>
	=====	=====
Issued and fully paid:		
63,090,728 ordinary shares of Shs 5 each	315,454	315,454
	<u>315,454</u>	<u>315,454</u>
	=====	=====

Notes to the Financial Statements (continued)



		2006 Shs'000	2005 Shs'000
23 MINORITY INTEREST			
GROUP			
At 1 July		718,952	665,901
Exchange adjustment		1,698	1,101
Share of profit for the year		27,762	51,950
At 30 June		748,412	718,952
		=====	=====
The minority interest consists of:			
Unga Holdings Limited:			
Held by Seaboard Corporation	35%	705,068	686,327
Bullpak Limited:			
Held by Nampak Holdings Limited	49%	43,344	32,625
		748,412	718,952
		=====	=====
24 BORROWINGS			
GROUP			
Bank loan (secured)		338,687	295,423
Bank overdraft facilities (secured)		26,206	228,948
Loan from related company (unsecured)		-	7,920
		364,893	532,291
		=====	=====
The borrowings are repayable as follows:			
On demand or within one year		327,549	493,966
In the second to fifth years		37,344	38,325
		364,893	532,291
		=====	=====
		2006	2005
The average interest rates paid were as follows:			
Bank overdraft facilities		14.13%	13.50%
Bank loans		7.65%	7.69%
		=====	=====

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 was unsecured, interest free and had no fixed repayment terms.

The group has undrawn committed borrowing facilities amounting to Shs 140,000,000 (2005 – Shs 69,776,000). The borrowing facilities consist of loans and bank overdrafts.

Notes to the Financial Statements (continued)

	2006 Shs'000	2005 Shs'000
25 SERVICE GRATUITY		
GROUP		
At 1 July	53,601	47,543
Income statement charge	4,908	14,862
Paid during the year	(6,813)	(8,804)
At 30 June	51,696	53,601
	=====	=====

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

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.

	2006 Shs'000	2005 Shs'000
27 TRADE AND OTHER PAYABLES		
GROUP		
Trade payables	376,833	390,139
Other payables and accruals	132,880	174,677
	509,713	564,816
	=====	=====
COMPANY		
Other payables and accruals	6,659	7,332
	=====	=====

28 DUE TO RELATED COMPANIES

GROUP		
Seaboard Overseas Management Company Limited	418,503	530,422
Seaboard Corporation Inc.	9,883	20,557
Nampak Kenya Limited	496	7,462
Nampak International Limited	9,692	-
	438,574	558,441
	=====	=====

The amounts due to related companies are repayable on demand

Notes to the Financial Statements (continued)

29 NOTES TO THE CASH FLOW STATEMENT

	2006 Shs'000	2005 Shs'000
(a) Reconciliation of operating profit to cash generated from operations		
Operating profit	228,792	225,115
Adjustments for:		
Depreciation	164,906	170,534
Amortisation of prepaid operating lease rentals	1,560	1,615
Amortisation of intangible assets	1,105	1,033
Write off of work in progress	-	389
Profit on disposal of properties held for sale	(25,860)	(15,850)
Profit on disposal of property, plant and equipment	(3,837)	(2,906)
Net foreign exchange (losses)/gains	(5,779)	21,533
Retirement benefits charge	4,578	9,672
Actuarial surplus on retirement benefits asset	(15,807)	-
Operating profit before working capital changes	349,658	411,135
Decrease in inventories	317,248	128,037
(Increase)/decrease in trade and other receivables	(158,281)	60,968
Increase in short term deposits	(1,809)	(2,361)
Decrease in trade and other payables	(52,774)	(66,745)
Movement in related company balance	(119,879)	(348,474)
(Decrease)/increase in service gratuity	(1,905)	6,058
Cash generated from operations	332,258	188,618
	=====	=====
(b) Analysis of the balances of cash and cash equivalents as shown in the balance sheet		
Cash and bank balances	203,344	72,741
Bank overdraft facilities	(26,206)	(228,948)
At 30 June	177,138	(156,207)
	=====	=====
(c) Analysis of loan balances		
Bank loans	338,687	295,423
Loan from related company	-	7,920
	=====	=====
	338,687	303,343
	=====	=====

Notes to the Financial Statements (continued)

29 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2006 Shs'000	2005 Shs'000
(d) Movement in loan balances		
At 1 July	303,343	378,948
Loans received	100,000	-
Loans repaid	(64,656)	(75,605)
At 30 June	<u>338,687</u>	<u>303,343</u>
	=====	=====
(e) Exchange adjustments on working capital		
Inventories	(10,486)	(2,875)
Trade and other receivables	(4,393)	(1,403)
Trade and other payables	(2,329)	(991)
	<u>(17,208)</u>	<u>(5,269)</u>
	=====	=====

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.

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 could 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.

	2006 Shs'000	2005 Shs'000
GROUP		
During the year the following transactions were entered into with related parties		
Purchase of goods/services:		
Raw material purchases	589,447	841,823
Management fee	16,000	9,416
Other expenses	42,776	45,895
Interest charged	21,390	20,449
	=====	=====
COMPANY		
Management fee	12,000	4,500
	=====	=====

Amounts not settled as at the balance sheet date are disclosed in Notes 24 and 28.

Notes to the Financial Statements (continued)

30 RELATED PARTY TRANSACTIONS (Continued)

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2006 Shs'000	2005 Shs'000
Salaries and other short-term employment benefits	33,945	32,316
Post-employment benefits	932	947
	<u>34,877</u>	<u>33,263</u>
Directors' remuneration		
Fees for services as a director	1,860	1,866
Other emoluments (included in key management compensation above)	8,891	13,787
	<u>10,751</u>	<u>15,653</u>

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.

32 CAPITAL COMMITMENTS

Commitments at the year end for which no provision has been made in these financial statements:

GROUP

	2006 Shs'000	2005 Shs'000
Authorised but not contracted for	275,336	125,832
	=====	=====

Notes to the Financial Statements (continued)

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 2006, 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 344 million in favour of Standard Chartered Bank Kenya Limited to secure overdraft facilities of a subsidiary company, Unga Farm Care (EA) Limited. The amount of facilities outstanding as at 30 June 2006, 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).

Notes

1. If you are unable to attend this meeting personally, this form of proxy should be completed and returned to the Secretary, Unga Group Limited, P. O. Box 30096 Nairobi, to reach him not later than 24 hours before the time appointed for the meeting.
2. A person appointed to act as a proxy need not also be a member of the company.
3. If the appointer be a corporation, this form must be under its common seal or under the hand of an officer or an attorney authorised in writing.

Signed _____

Signed _____

As Witness my/our hand this _____ day of _____ 2006

Item No.	Yes	No
1		
2		
3		
4		
5		

I Authorize my proxy to vote as follows on the resolutions for the meeting

Thursday, 23 November 2006 at 10.00 a.m. and at any adjournment thereof.

and on my/our behalf at the seventy - ninth annual general meeting of the company to be held on

and failing him/her the duly appointed chairman of the meeting as my/our proxy to vote for me/us

and failing him/her _____

of Unga Group Limited, hereby appoint _____

_____ of _____ being a member/members

I/We _____

Form of Proxy



FOLD 2



The Secretary
UNGA GROUP LIMITED
P. O. Box 30096
00100 GPO
NAIROBI

FOLD 1

FOLD 3