

EAST AFRICAN BREWERIES LIMITED
INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE 6 MONTH PERIOD ENDED 31 DECEMBER 2016

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DIRECTORS' REPORT

The Directors submit their report together with the interim financial information for the six month period ended 31 December 2016, which disclose the state of affairs of East African Breweries Limited (the 'Group').

1. Principal activities

East African Breweries Limited is a holding Company with subsidiaries involved in the marketing, brewing/manufacturing and selling of drinks, malt and barley.

2. Results

The Group results for the period are set out on page 3.

3. Dividends

At the board meeting held on 26 January 2017, the Directors recommended a payment of an interim dividend of Kshs 2.00 per share amounting to Kshs 1,581,757,000 (2015: Kshs 2:00 per share amounting to Kshs 1,581,757,000).

4. Employees

The Directors are pleased once again to record their appreciation for the untiring effort of all employees of the Company and its subsidiaries.

5. Approval of interim financial information

The interim financial information was approved by the Board of Directors on 26 January 2017.

By order of Board



.....
Joyce Munene
Company Secretary

Date: 26 January 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated interim financial information of East African Breweries Limited set out on pages 3-21 which comprise the consolidated financial position as at 31 December 2016, and the consolidated income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Directors are required to prepare financial information which give a true and fair view of the state of affairs of the Group as at the end of the period and of the operating results of the Group for that period. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group.

The Directors accept responsibility for the interim financial information, which has been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards. 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 its operating results.

As explained in note 2, the Directors find it appropriate to continue to prepare this interim financial information on a going concern basis.

As explained in note 8, management is currently in the process of obtaining all the pertinent data to enable a detailed review of the goodwill impairment. This exercise is expected to be completed by end of April 2017.

Approval of the interim financial information

The interim financial information, as indicated above, was approved by the Board of Directors on 26 January 2017 and was signed on its behalf by:



Director



Director

CONSOLIDATED INCOME STATEMENT

	Notes	6 months ended 31 December	
		2016	2015
		Kshs '000	Kshs '000
Revenue	3(a)	35,156,228	37,513,921
Cost of sales	3(b)	(18,555,887)	(20,084,503)
Gross profit		16,600,341	17,429,418
Selling and distribution costs	3(c)	(2,662,318)	(3,244,707)
Administrative expenses	3(c)	(4,618,018)	(5,094,641)
Other income/(expenses)	3(d)	228,608	191,841
Finance income	3(e)	7,217	187,588
Finance costs	3(e)	(1,522,979)	(1,547,213)
Profit before income tax		8,032,851	7,922,286
Income tax expense		(2,447,992)	(2,437,776)
Profit for the period from continuing operations		5,584,859	5,484,510
Profit from discontinued operations, net of tax	4	-	2,249,428
Profit for the period		5,584,859	7,733,938
Profit attributable to:			
Equity holders of the Company		4,965,387	7,226,721
Non-controlling interest		619,472	507,217
Profit for the period		5,584,859	7,733,938
Earnings per share			
-Basic (Kshs per share)		6.28	9.14
-Diluted (Kshs per share)		6.28	9.14
Earnings per share - continuing operations			
-Basic (Kshs per share)		6.28	6.29
-Diluted (Kshs per share)		6.28	6.29
Earnings per share - discontinuing operations			
-Basic (Kshs per share)		-	2.84
-Diluted (Kshs per share)		-	2.84

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 31 December	
	2016	2015
	Kshs '000	Kshs '000
Profit for the period	5,584,859	7,733,938
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss		
Exchange differences from translation of net foreign operations	(156,687)	(498,865)
Total comprehensive income for the period	5,428,172	7,235,073
Total comprehensive income for the period attributable to:		
Equity holders of the Company	5,049,274	6,718,710
Non-controlling interest	378,898	516,363
Total comprehensive income for the period	5,428,172	7,235,073

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

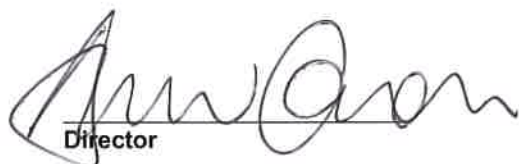
		As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000
Equity attributable to owners of the Company			
Share capital	6	1,581,547	1,581,547
Share premium	6	1,691,151	1,691,151
Translation reserve		(1,843,130)	(1,927,017)
Proposed dividends		1,581,757	4,349,259
Retained earnings		8,972,105	5,588,475
		11,983,430	11,283,415
Non-controlling interest		(37,271)	(416,169)
Total equity		11,946,159	10,867,246
Non-current liabilities			
Deferred income tax		1,421,300	1,303,190
Borrowings	10	21,483,486	21,473,594
Finance lease liabilities		206,202	132,753
		23,110,988	22,909,537
Total equity and non-current liabilities		35,057,147	33,776,783
Non-current assets			
Property, plant and equipment	7	35,700,686	35,606,808
Intangible assets – Software		317,007	422,611
Intangible assets – Goodwill	8(a)	3,577,191	3,577,191
Intangible assets – Brand		563,005	563,005
Prepaid operating lease rentals		10,069	10,309
Other investments		10,000	10,000
		40,177,958	40,189,924
Current assets			
Inventories		8,491,184	8,131,242
Trade and other receivables		14,922,279	11,572,146
Current income tax		588,000	631,827
Cash and bank balances		2,584,040	1,221,066
		26,585,503	21,556,281

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000
Current liabilities			
Trade and other payables		24,981,083	21,920,678
Dividends payable		773,855	873,588
Bank overdraft	10	5,951,376	5,175,156
		31,706,314	27,969,422
Net current (liabilities)/assets		(5,120,811)	(6,413,141)
Net assets		35,057,147	33,776,783

The interim financial information pages 3 to 21 were approved for issue by the Board of Directors on 26 January 2017 and signed on its behalf by:


Director


Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

6 months ended 31 December 2016

	Share capital Kshs '000	Share premium Kshs '000	Translation reserves Kshs '000	Proposed dividends Kshs '000	Retained earnings Kshs '000	Total Kshs '000	Non-controlling interest Kshs '000	Total equity Kshs '000
At 1 July 2016	1,581,547	1,691,151	(1,927,017)	4,349,259	5,588,475	11,283,415	(416,169)	10,867,246
Total comprehensive income								
Profit for the period	-	-	-	-	4,965,387	4,965,387	619,472	5,584,859
Other comprehensive income	-	-	83,887	-	-	83,887	(240,574)	(156,687)
Total comprehensive income for the period	-	-	83,887	-	4,965,387	5,049,274	378,898	5,428,172
Transactions with owners of the Company								
Dividends:								
- Proposed interim for 2017	-	-	-	1,581,757	(1,581,757)	-	-	-
- Final for 2016	-	-	-	(4,349,259)	-	(4,349,259)	-	(4,349,259)
Total transactions with owners of the Company	-	-	-	(2,767,502)	(1,581,757)	(4,349,259)	-	(4,349,259)
At 31 December 2016	1,581,547	1,691,151	(1,843,130)	1,581,757	8,972,105	11,983,430	(37,271)	11,946,159

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 30 June 2016

	Share capital Kshs '000	Share premium Kshs '000	Translation reserves Kshs '000	Proposed dividends Kshs '000	Retained earnings Kshs '000	Total Kshs '000	Non- controlling interest Kshs '000	Total equity Kshs '000
At 1 July 2015	1,581,547	1,691,151	246,531	4,744,645	5,427,061	13,690,935	(337,752)	13,353,183
Total comprehensive income								
Profit for the year	-	-	-	-	9,650,707	9,650,707	620,106	10,270,813
Other comprehensive income	-	-	(2,173,548)	-	-	(2,173,548)	(3,478)	(2,177,026)
Total comprehensive income for the year	-	-	(2,173,548)	-	9,650,707	7,477,159	616,628	8,093,787
Transactions with owners of the Company								
Dividends:								
- Proposed final for 2016	-	-	-	4,349,259	(4,349,259)	-	-	-
- Special for 2016	-	-	-	-	(3,558,485)	(3,558,485)	-	(3,558,485)
- Interim for 2016	-	-	-	-	(1,581,549)	(1,581,549)	-	(1,581,549)
- Final for 2015	-	-	-	(4,744,645)	-	(4,744,645)	(695,045)	(5,439,690)
Total transactions with owners of the Company	-	-	-	(395,386)	(9,489,293)	(9,884,679)	(695,045)	(10,579,724)
At 30 June 2016	1,581,547	1,691,151	(1,927,017)	4,349,259	5,588,475	11,283,415	(416,169)	10,867,246

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	6 months ended 31 December	
		2016 Kshs '000	2015 Kshs '000
Operating activities			
Cash generated from operations	9	10,588,145	16,278,016
Interest received		7,217	187,588
Interest paid		(1,522,979)	(1,913,374)
Income tax paid		(3,025,301)	(2,882,759)
Net cash generated from operating activities		6,047,082	11,669,470
Investing activities			
Purchase of property, plant and equipment	7	(1,748,537)	(1,543,940)
Purchase of intangible assets - software		(17,250)	-
Proceeds from disposal of property, plant and equipment		27,384	78,000
Proceeds from disposal of subsidiary		-	3,479,592
Net movements in assets and liabilities of disposal group		-	451,300
Net cash used in investing activities		(1,738,403)	2,464,952
Financing activities			
Dividends paid to Company's shareholders		(4,448,992)	(4,744,646)
Dividends paid to non-controlling interests		-	(694,946)
Loan repayments		-	(1,277,081)
Net cash used in financing activities		(4,448,992)	(6,716,673)
Net (decrease) / increase in cash and cash equivalents		(140,313)	7,417,750
Movement in cash and cash equivalents			
At start of period		(3,954,091)	(1,391,898)
Foreign exchange impact of translation		727,068	(224,290)
Net (decrease)/increase during the period		(140,313)	7,417,750
Cash and cash equivalents at end of period		(3,367,336)	5,801,562

Notes

1. General information

East African Breweries Limited (the “Company”) is incorporated as a limited liability company in Kenya under the Kenyan Companies Act (CAP 486) and is domiciled in Kenya. The address of its registered office and principal place of business is as follows:

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

The consolidated financial information for the Company as at 31 December 2016 and for the 6 months then ended comprise the Company and the subsidiaries (together referred to as the ‘Group’ and individually as ‘Group entities’). The Group is primarily involved in marketing, manufacturing and selling of drinks, malt and barley.

The Company’s shares are listed on the Nairobi Securities Exchange, Uganda Stock Exchange and Dar es Salaam Stock Exchange.

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

This consolidated interim financial information was approved for issue on 26 January 2017.

This consolidated interim financial information has been reviewed, not audited.

2. Summary of significant accounting policies

a. Basis of accounting

These consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34; Interim Financial Reporting. These unaudited interim financial statements should be read in conjunction with the 30 June 2016 annual financial statements. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2016 unless otherwise stated.

b. Functional and presentation currency

The financial statements are presented in Kenya Shillings which is the Company’s functional currency. All financial information presented in Kenya Shillings have been rounded to the nearest thousand except when otherwise indicated.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ‘the functional currency’ except where otherwise indicated.

c. Use of judgement and estimates

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2016.

Notes (continued)

2. Summary of significant accounting policies (continued)

d. Going concern

The Group's statement of financial position indicates a net current liability position of Kshs 5,120,811,000. The Directors are satisfied that this is transient in nature as the Group structures its funding requirements.

To further satisfy themselves as to the going concern of the Group, the Directors have undertaken a detailed funding assessment including a debt maturity analysis. Based on the outcome of this exercise it has been concluded that the Group will generate/access sufficient funds to meet all its obligations over the next twelve month period from the date of this report. The Directors have also reviewed all borrowing financial covenants and confirmed them to be in compliance.

3. Business performance

a. Revenue

The Group's net sales declined by 6% mainly due to adverse mix as value beer and spirits were in growth while mainstream and premium beer declined. Foreign exchange movements have also contributed to the decline, on a constant currency basis decline was only 0.2%.

	6 months ended 31 December	
	2016	2015
	Kshs'000	Kshs'000
Gross sales	63,980,465	63,651,377
Indirect taxes	(28,824,237)	(26,137,456)
	35,156,228	37,513,921

b. Cost of sales

Cost of sales declined in the period by 8% versus last year due to volume decline and as a result of various savings initiatives.

	6 months ended 31 December	
	2016	2015
	Kshs'000	Kshs'000
Raw materials and consumables	10,928,594	9,778,569
Distribution and warehousing	1,271,799	3,650,606
Maintenance and other costs	2,655,289	2,847,497
Staff costs (including travel)	2,202,982	2,114,012
Depreciation	1,497,223	1,693,819
	18,555,887	20,084,503

c. Expenses

Selling and distribution expenses fell by 18% as a result of procurement savings and rephasing of some activations to the second half.

Administrative expenses declined 9% due to savings on other staff costs and travel and entertainment.

Notes (continued)

3. Business performance (continued)

d. Other income and expenses

Other income and expenses increased by 19% due to foreign exchange gains driven by improved performance of the Kenyan shilling against other major currencies.

e. Finance costs

Net finance costs increased by 11% due to lower than average cash balances. Cash balances in F16 included proceeds from the disposal of business, which resulted in a higher interest income.

f. Capital expenditure

A net spend of Kshs 1.7 billion was incurred on plant and machinery to expand capacity, improve efficiency and quality as well as impact on the environment.

4. Discontinued operations

On 30 September 2015 the Group sold Central Glass Industries Limited ("CGI"), its glass and containers producing subsidiary, to Consol Glass Proprietary Limited for a cash consideration of Kshs 3.4billion. The pre-tax profit on disposal of the subsidiary was Kshs 2.4billion.

Central Glass Industries Limited was previously classified as held-for-sale. Accordingly, Central Glass Industries Limited results are presented in this interim financial information as a discontinued operation. The financial information relating to Central Glass Industries Limited for the period to the date of disposal is set out below. The income statement and statement of cash flow distinguish discontinued operations from continuing operations.

a. Income statement

	6 months ended 30 December 2016 Kshs'000	6 months ended 30 December 2015 Kshs'000
Revenue	-	193,042
Expenses	-	(192,169)
Profit before income tax from discontinued operations	-	873
Income tax expense from discontinued operations	-	(248)
Post-tax profit from discontinued operations	-	625
Pre-tax profit on disposal of the subsidiary	-	2,369,789
Income tax expense	-	(120,986)
Post-tax profit on disposal of the subsidiary	-	2,248,803
Profit from discontinued operations	-	2,249,428

b. Assets and liabilities

There was no impact on the assets and liabilities in both periods.

Notes (Continued)

5. Segmental reporting

Management has determined the operating segments based on the reports reviewed by the Group executive committee that are used to make strategic decisions.

The committee considers the business from a geographical perspective. Geographically, management considers the performance of the business in Kenya, Uganda, Tanzania and South Sudan.

The reportable operating segments derive their revenue primarily from brewing, marketing and selling of drinks, malt and barley. The executive committee assesses the performance of the operating segments based on a measure of profit before income tax.

At the end of the financial year 2016, South Sudan experienced political instability and as a result management made the decision to cease trading until both the economy and political situation stabilises.

The segmental information provided to the executive committee is as follows:

	Kenya		Uganda		Tanzania		South Sudan		Eliminations		Consolidated	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
External sales	25,926,155	27,742,517	5,970,149	5,752,736	3,245,522	3,515,809	14,401	502,859	-	-	35,156,227	37,513,921
Inter segment sales	7,408,096	5,691,956	164,164	532	11,020	-	-	-	(7,583,279)	(5,692,488)	-	-
Total sales	33,334,251	33,434,473	6,134,313	5,753,268	3,256,542	3,515,809	14,401	502,859	(7,583,279)	(5,692,488)	35,156,227	37,513,921

Notes (Continued)

5. Segmental reporting (continued)

Reportable segments assets and liabilities are as follows:

	Kenya		Uganda		Tanzania		South Sudan		Eliminations		Consolidated	
	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000	As at 31 December 2016 Kshs '000	As at 30 June 2016 Kshs '000
Segment non-current assets	68,387,575	68,082,991	4,996,779	5,019,490	8,667,943	8,744,110	825	2,729	(41,875,166)	(41,659,396)	40,177,958	40,189,924
Total segment assets	91,790,398	88,132,406	11,863,927	9,481,521	12,082,709	10,962,968	83,011	221,442	(49,056,582)	(47,052,132)	66,763,462	61,746,205
Segment liabilities	48,997,878	47,057,113	9,870,950	7,742,047	13,951,709	12,098,092	1,424,226	1,195,580	(19,427,459)	(17,213,873)	54,817,303	50,878,959
Capital expenditure	1,203,202	3,430,905	402,271	1,108,125	143,062	519,808	-	-	-	(41,301)	1,748,536	5,017,537
Depreciation expense and amortisation	1,098,478	2,357,731	200,630	426,747	385,535	688,652	223	1,317	-	(24,827)	1,684,866	3,449,620

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Segment revenue is based on the geographical location of both customers and assets. Sales between segments are carried out at arm's length. The revenue from external parties reported to the executive committee is measured in a manner consistent with that in the income statement. There is no reliance on individually significant customers by the Group. The amounts provided to the executive committee in respect to total assets and total liabilities are measured in a manner consistent with that of the interim financial information.

Notes (Continued)

6. Share capital

	Number of shares	Ordinary shares Kshs'000	Share premium Kshs'000
Issued and fully paid Balance as at 1 July 2015, 30 June 2016 and 31 December 2016	790,774,356	1,581,547	1,691,151

The total authorised number of ordinary shares is 1,000,000,000 with a par value of Kshs 2.00 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Notes (Continued)

7. Property, plant and equipment

(a) Group	Freehold property	Leasehold buildings	Plant & equipment	Motor vehicles	Returnable packaging	Capital work in progress	Total
6 months ended 31 December 2016	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost							
1 July 2016	4,410,548	2,907,023	36,089,964	87,385	14,161,157	3,969,064	61,625,141
Additions	39,807	6,085	60,371	-	79,454	1,562,820	1,748,537
Disposals	-	-	(187,251)	-	(9,391)	-	(196,642)
Transfers from work in progress	37,613	-	108,269	-	26,688	(172,570)	-
Assets written off	-	-	-	-	(58,938)	-	(58,938)
Transfers (to)/from intercompany	1,910	25,973	663,123	-	175,243	(866,249)	-
Effect of exchange rate changes	(4,316)	22,378	(19,915)	(2,402)	(26,744)	(27,201)	(58,200)
At 31 December 2016	4,485,562	2,961,459	36,714,561	84,983	14,347,469	4,465,864	63,059,898
Depreciation and impairment							
At 1 July 2016	1,204,161	776,115	16,230,959	58,292	7,748,806	-	26,018,333
On assets disposed	-	-	(166,564)	-	(9,578)	-	(176,142)
On reclassifications	-	-	(9,868)	-	-	-	(9,868)
On assets written off	-	-	-	-	(47,812)	-	(47,812)
Charge for the period	33,548	68,002	818,005	205	710,389	-	1,630,149
Effect of exchange rate changes	(2,513)	2,565	(35,320)	(1,299)	(18,881)	-	(55,448)
At 31 December 2016	1,235,196	846,682	16,837,212	57,198	8,382,924	-	27,359,212
Carrying amount as at 31 December 2016	3,250,366	2,114,777	19,877,349	27,785	5,964,545	4,465,864	35,700,686

Notes (Continued)

7. Property, plant and equipment (continued)

Year ended 30 June 2016	Freehold property Kshs '000	Leasehold buildings Kshs '000	Plant & equipment Kshs '000	Motor vehicles Kshs '000	Returnable packaging Kshs '000	Capital work in progress Kshs '000	Total Kshs '000
Cost							
1 July 2015	4,234,932	3,126,689	35,497,936	122,308	11,927,128	1,461,081	56,370,074
Additions	-	2,927	277,895	-	1,402,577	3,186,702	4,870,101
Disposals	(198,318)	-	(310,577)	-	(847,035)	(158,081)	(1,514,011)
Reclassifications	1,285	-	(1,350,456)	-	1,572,353	(223,182)	-
Transfers from work in progress	220,202	-	630,543	-	392,837	(1,243,582)	-
Assets written off	-	-	-	-	(300,719)	-	(300,719)
Effect of exchange rate changes	136,746	222,593	1,281,050	36,614	31,584	-	1,708,587
At 30 June 2016	4,394,847	3,352,209	36,026,391	158,922	14,178,725	3,022,938	61,134,032
Depreciation and impairment							
At 1 July 2015	977,031	770,202	13,181,953	61,558	5,798,953	-	20,789,696
On assets disposed	(7,928)	-	(259,889)	-	(773,107)	-	(1,040,924)
On reclassifications	7,320	-	(324,783)	-	317,463	-	-
On assets written off	-	-	-	-	(216,275)	-	(216,275)
Charge for the year	101,529	52,106	1,536,037	1,161	1,684,318	-	3,375,151
Effect of exchange rate changes	34,209	45,807	2,097,641	75,573	366,345	-	2,619,575
At 30 June 2016	1,112,161	868,115	16,230,959	138,292	7,177,697	-	25,527,224
Carrying amount as at 30 June 2016	3,282,686	2,484,094	19,795,432	20,630	7,001,028	3,022,938	35,606,808

Notes (Continued)

8. Intangible assets – Goodwill and brand

(a) Goodwill

	Cost	Cumulative	Carrying amount
At 31 December 2016	Kshs'000	impairment	Kshs'000
	Kshs'000	Kshs'000	Kshs'000
Serengeti Breweries Limited (SBL)	2,928,527	-	2,928,527
UDV (Kenya) Limited (UDV)	415,496	-	415,496
International Distillers (Uganda) Limited (IDU)	233,168	-	233,168
Total	3,577,191	-	3,577,191
At 30 June 2016			
Serengeti Breweries Limited (SBL)	2,928,527	-	2,928,527
UDV (Kenya) Limited (UDV)	415,496	-	415,496
International Distillers (Uganda) Limited (IDU)	233,168	-	233,168
Total	3,577,191	-	3,577,191

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

Impairment testing for cash-generating units containing goodwill and brand

For the purpose of impairment testing, goodwill and brand is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of an operating division is determined based on a detailed 5-year model that is extrapolated in perpetuity by applying the long term growth rate of the country. Profit is normally amended with charges representing profit of the group's supply activity and working capital requirements. The net contributions are discounted using the country-specific pre-tax weighted average cost of capital (WACC). These calculations normally use cash flow projections based on financial projections approved by management covering a 5-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rates for the respective countries in which the operating segments operate.

Management is currently in the process of obtaining all the pertinent data to enable a detailed review of the goodwill impairment. This exercise is expected to be completed by end of April 2017.

Notes (Continued)

9. Cash generated from operations

	6 months ended	
	31 December 2016 Kshs'000	31 December 2015 Kshs'000
(a) Group		
Profit before income tax	8,032,851	7,922,286
Interest income	(7,217)	(187,588)
Interest expense	1,522,979	1,913,374
Depreciation	1,630,149	1,802,169
Loss/(gain) on disposal of property, plant and equipment	6,884	(696,946)
Impairment of tangible assets	11,126	33,369
Amortisation of intangible asset - software	54,717	32,409
Amortisation of prepaid operating lease rentals	208	-
Cash generated from operations before working capital adjustments	11,251,697	10,819,073
Changes in working capital:		
-Trade and other receivables	(3,427,522)	2,219,937
-Inventories	(436,699)	618,033
-Trade and other payables	3,200,669	2,620,973
Cash generated from operations	10,588,145	16,278,016
	31 December 2016 Kshs'000	31 December 2015 Kshs'000
Cash and cash equivalents		
Group		
Cash and bank balances	2,584,040	7,536,340
Bank overdraft	(5,951,376)	(1,734,778)
	(3,367,336)	5,801,562

Notes (Continued)

10. Borrowings

	31 December 2016 Kshs'000	30 June 2016 Kshs'000
The borrowings are made up as follows:		
Non-current		
Long-term debt (related party) - refer to (i) below	11,469,236	11,469,236
Long-term debt (third party) - refer to (ii) below	5,014,250	5,004,358
Medium term note - refer to (iii) below	5,000,000	5,000,000
	21,483,486	21,473,594
Current		
Bank overdraft - refer to (iv) below	5,951,376	5,175,156
	5,951,376	5,175,156
	27,434,862	26,648,750

The carrying amounts of current borrowings approximate their fair value, as the impact of discounting is not material.

	6 months ended 31 December 2016 Kshs'000	Year ended 30 June 2016 Kshs'000
The movement in borrowings is as follows:		
At start of period	26,648,750	33,764,890
Advanced in the period	-	4,994,446
Repayments	-	(12,898,623)
Movement in bank overdrafts	776,220	778,125
Effect of exchange rate changes	9,892	9,912
At end of the period	27,434,862	26,648,750

- (i) Related party loan from Diageo Finance Plc of Kshs 11,469,236,000. The related party loan issued in 2012 attracts variable interest rates at 3% above Kenya bankers' reference rate (KBRR). This loan is unsecured.
- (ii) Bank loans comprise:
- a. Medium term loan from Barclays Bank of Kenya of Kshs. 4,500,000,000 at average annual interest rates of 13.65%. This facility is secured by a letter of comfort from Diageo Plc for Kshs 7.8 billion and matures in 5 years from June 2016. There is a one year moratorium on principal and interest repayments.
 - b. Medium term loan from Stanbic Bank of Uganda USD 50,000,000 at an effective interest rate of 6%. This facility is unsecured and matures on 30 April 2021.
- (iii) Medium term note of Kshs 5,000,000,000 (2015: KES. 5,000,000,000). The medium term note is unsecured and matures in March 2018. It has a weighted average annual interest rate of 12.5%.

Notes (Continued)

10. Borrowings (continued)

(iv) The bank overdraft has an effective interest rate of 8.96% and is sourced from Standard Chartered Bank Ltd and Citibank. The Group increased its finance lease to Kshs. 206,202,000 (30 June 2016: Kshs. 132,753,000) with Equity Bank Tanzania for assets financing.

The Group was not in breach of any financial covenants for banking facilities as at 31 December 2016. For the medium term note, the Capital Markets Authority requires the Group to maintain a current assets ratio of 1. The Group's current asset ratio is 0.81 compared to 0.77 as at 30 June 2016.

Of the total drawdown debt, the Group still has available undrawn amounts of Kshs 8.4 billion.

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