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Company Information

BOARD OF DIRECTORS

Dr. Eddah W. Gachukia	-	(Chairperson)
Mr. John Masterten-Smith	-	(Managing Director) appointed 1 November, 2004
Mr. Isaac O. Awuondo	-	resigned 8 February, 2005
Mr. Kipng'etich K. Bett	-	resigned 8 February, 2005
Mr. Arun Devani	-	appointed 21 October, 2005
Mr. Richard C. Henry	-	(Group Finance & Strategy Director) appointed 21 March, 2005
Industrial and Commercial Development Corporation	-	represented by Eng. Joseph M. Munene
ICDC Investment Co. Limited	-	represented by Mr. Peter K. Mwangi
Mr. James Kabuga	-	appointed 13 September, 2005 and representing PTA Bank
KWA Holdings (EA) Limited	-	represented by Mr. Vincent Opanga
Dr. Ernest M. Kioko	-	resigned 8 February, 2005
Mr. Nigel R. Pavitt	-	resigned 8 February, 2005
Permanent Secretary, Ministry of Trade and Industry (Alternate, Ms. Kezzia Muniu)		
Mr. Albert Ruturi	-	appointed 13 September, 2005

COMPANY SECRETARY

Waweru G. Mathenge

REGISTERED OFFICE

Uchumi Supermarkets Limited
Yarrow Road, off Nanyuki Road
P.O. Box 73167 - 00200
Nairobi.

AUDITORS

PricewaterhouseCoopers
Rahimtulla Tower, Upper Hill Road
P.O. Box 43963-00100
Nairobi

BANKERS

Kenya Commercial Bank
Kencom House
Moi Avenue
P.O. Box 48400 - 00100
Nairobi

Eastern and Southern African Trade and Development Bank (PTA Bank)
NSSF Building, Bishops Road
P.O. Box 48596-00100
Nairobi.

REGISTRARS AND TRANSFER OFFICE

Funguo Registrars Limited
Uchumi House, Moi Avenue
P.O. Box 1133 - 00200
Nairobi.

Board of Directors

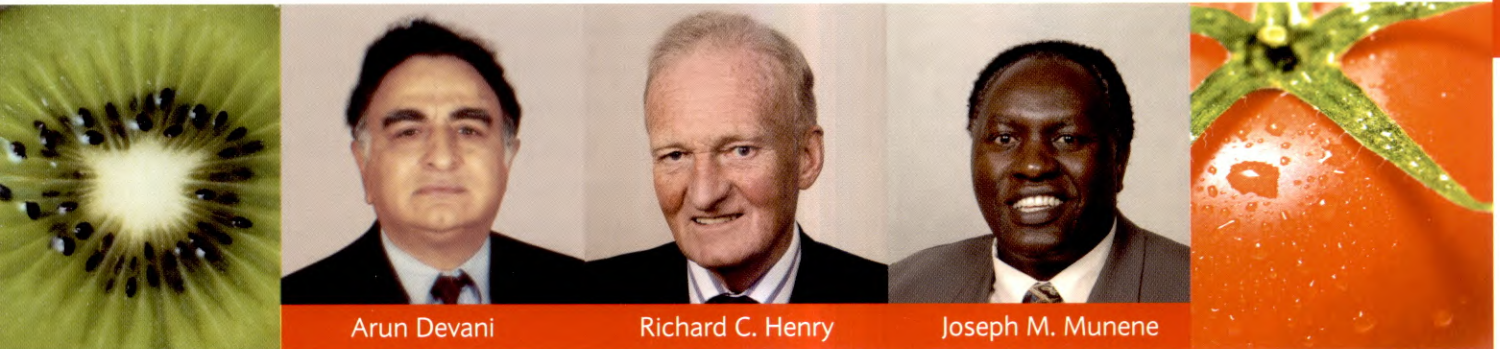


Dr. Eddah W. Gachukia

John Masterten-Smith

Chairperson

Managing Director

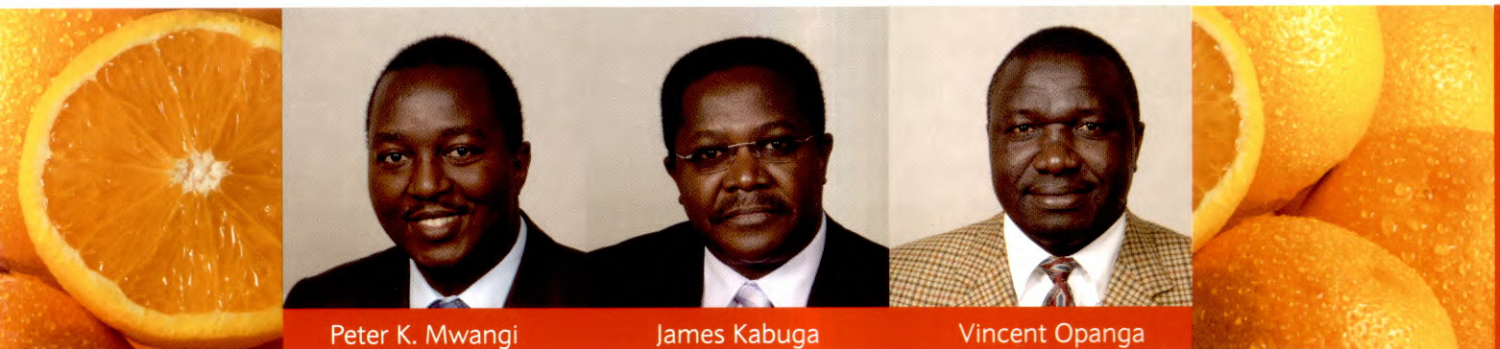


Arun Devani

Richard C. Henry

Joseph M. Munene

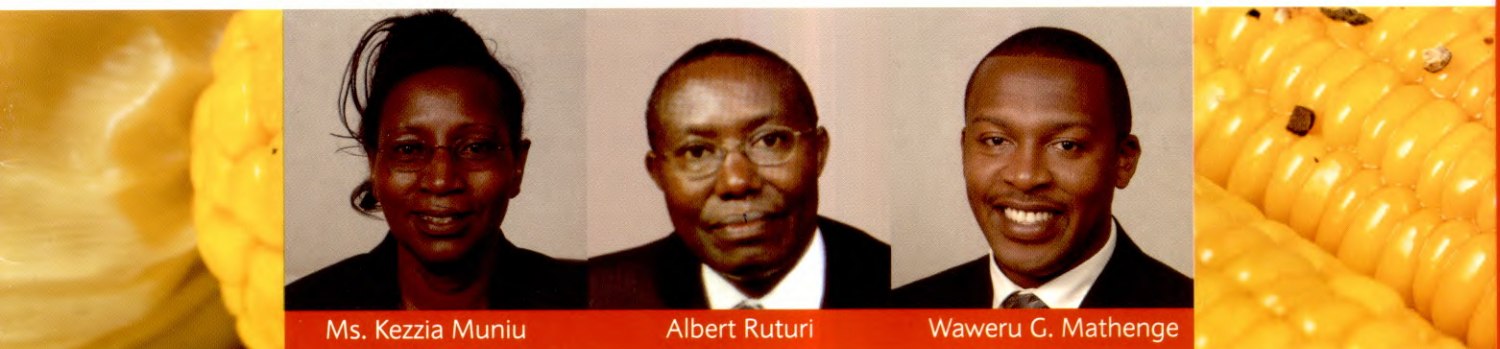
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Peter K. Mwangi

James Kabuga

Vincent Opanga



Ms. Kezzia Muniu

Albert Ruturi

Waweru G. Mathenge

Notice of Annual General Meeting

Tangazo la Mkutano Mkuu

NOTICE IS HEREBY GIVEN that the 27th Annual General Meeting of the Company will be held on Tuesday, 13 December, 2005 at the Grand Regency Hotel, Nairobi at 3.00 pm to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the previous Annual General Meeting.
2. To receive, consider, and if thought fit, adopt the Accounts for the year ended 30 June, 2005 together with the Directors' and Auditors' reports thereon.
3. To confirm the Director's remuneration for the year ended 30 June, 2005.
4. To elect the following Directors:
 - a. In accordance with Article 100 of the Company's Articles of Association Dr. Eddah W. Gachukia and Industrial and Commercial Development Corporation (ICDC) retire by rotation and, being eligible, offer themselves for re-election.
 - b. In accordance with Article 102 of the Company's Articles of Association Mr. Richard C. Henry, Mr. James Kabuga, Mr. Albert Ruturi and Mr. Arun Devani having been appointed as additional directors during the year retire and, being eligible, offer themselves for re-election.
5. To note that PricewaterhouseCoopers, having expressed their willingness, continue in office as auditors of the company in accordance with the provisions of section 159(2) of the Companies act (Cap 486) and to authorise the Directors to fix their remuneration.
6. To transact any other business which may legally be transacted at an Annual General Meeting.

By Order of the Board

Waweru G. Mathenge
Company Secretary
25 October 2005

NB: A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the company.

ILANI INATOLEWA HAPA KUWA Mkutano Mkuu wa mwaka wa ishirini na saba wa kampuni utafanywa katika hoteli ya Grand Regency, Nairobi siku ya Jumanne, Desemba 13, 2005 saa tisa alasiri ili kuendesha shughuli zifuatazo:

SHUGHULI ZA KAWAIDA

1. Kuthibitisha kumbukumbu za Mkutano Mkuu wa mwaka uliopita.
2. Kupokea, kutafakari na iwapo itaonekana inafaa, kuidhinisha ripoti na taarifa za kifedha za mwaka uliomalizika tarehe 30 Juni, 2005 pamoja na ripoti ya Wakurugenzi na Wakaguzi wa hesabu ya pesa.
3. Kuthibitisha malipo ya Wakurugenzi ya mwaka uliomalizika tarehe 30 Juni, 2005.
4. Kuchagua Wakurugenzi wafuatao:
 - a. Kulingana na kifungu 100 cha Kanuni za Kampuni Dr. Eddah Gachukia na shirika la ICDC wanastaafu kwa zamu na kwa kuwa wanahitimu, wanajitolea kuchaguliwa tena.
 - b. Kulingana na kifungu 102 cha Kanuni za Kampuni Mabwana Richard Henry, James Kabuga, Albert Ruturi na Arun Devani walioteuliwa mwaka huu wanastaafu na kwa kuwa wanahitimu, wanajitolea kuchaguliwa tena.
5. Kutambua ya kwamba PricewaterhouseCoopers, baada ya kujieleza kuwa wangependa kuendelea na mamlaka ya Ukaguzi wa kampuni wanaendelea kushika hatamu hiyo kulingana na maagizo ya sehemu 159 (2) ya Sheria za Makampuni (Cap 486) na kuwaidhinisha Wakurugenzi waamue malipo yao.
6. Kuendesha shughuli nyingine zozote zile ambazo kisheria zinakubalika kwenye Mkutano Mkuu wa Mwaka

Kwa Amri ya Halmashauri

Waweru G Mathenge
Katibu wa Kampuni
25 Octoba 2005

Maelezo: Mwenyehisa wa kampuni aliye na haki ya kuhudhuria mkutano huu na kupiga kura anaweza kumteua mwakilishi ambaye si lazima awe mwenyehisa wa kampuni.

Chairperson's Statement



I take this opportunity to present to you your company's Annual Report and Financial Statements for the year ended 30 June 2005 and to highlight the major events that have taken place during the last year.

The year under review was very significant for your company. We have faced considerable operational challenges and achieved a number of successes that your Board believes should mark the point at which the fortunes of your company start to take a turn for the better.

In 2004, the Kenyan economy performed better than the previous year, growing by over 4%. However, any gains that may have been made through economic activity were eroded by increased inflation driven by the huge increases in international crude oil prices, which rose by more than 60%. The effect of such inflationary pressure inevitably had an adverse effect on the company's performance.

The early part of the year saw the company under the stewardship of Mr. Kipng'etich Bett as Acting Managing Director. This was a particularly tough time for Uchumi, which was suffering from severe cash constraints that resulted in several stock-outs which affected the entire branch network and resulted in a significant loss of market share. Much credit should be given to Mr. Bett, for steering the company through this difficult time, and negotiating a number of financial packages with our lenders and shareholders. He also negotiated several financial arrangements with suppliers, thereby enabling them to resume supplies to our stores. I wish to thank Mr. Bett for the loyal and dedicated service rendered to our company over many years.

In October 2004, the Board completed its search for a professional manager with experience in retailing to run the company and appointed Mr. John Masterten-Smith, from the Spar Group of South Africa as

managing director. John has extensive experience in the retail business, and is well qualified to lead the Uchumi turnaround and to maintain our position as the leading retail organisation in the region.

In March 2005, the Board appointed Mr. Richard Henry as Finance and Strategy Director. Richard has a successful track record in Kenya with leading companies such as the Serena Group and the Nation Media Group, and the experience to put in place the systems and structures needed to assist the Board with its plans to turn round the financial performance of the group. He joins a very effective senior management team well able to carry the company forward.

During the year, the company embarked on a structured turnaround process to address the problems it faced and to improve performance. The closure of ten loss making branches on 10 February 2005 was a necessary but difficult course of action taken in order to secure the future of the company.

The group's net turnover for the period under review declined from KShs 8.0 billion to KShs 5.2 billion. This was due to the effect of closing 10 stores in February 2005 coupled with a decline in customer numbers and a decrease in average spend per customer, particularly for the Kenyan operations.

As a result of the decline in sales and increase in finance costs, the loss after tax for the year to 30 June 2005 regrettably increased to KShs 1.2 billion from a comparative KShs 699 million the previous year.

As part of the key efforts to raise cash to recapitalise the business, the company has recently concluded a successful Rights Issue, raising KShs 1.2 billion in order to reduce the company's bank indebtedness, pay arrears owed to suppliers, invest in branch refurbishment and promote the Uchumi brand. Measures have also been taken to cut costs, dispose of non-strategic assets, and optimise inventory levels.

Despite the financial pressures, the company continued to support various charitable organisations that help the needy in our community. Our long standing association with the Childlife Trust and The

Chairperson's Statement

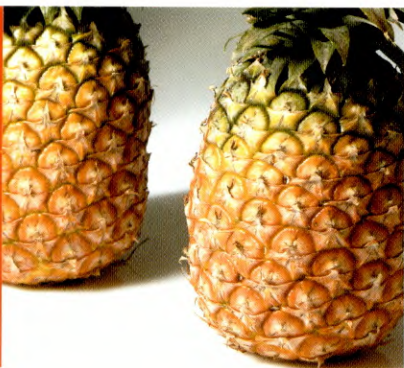
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Association of People Living with Aids in Kenya (TAPWAK) provided an opportunity to assist underprivileged children and families afflicted by Aids. In a truly commendable initiative, our staff joined other Kenyans in contributing funds and purchasing food for the annual food campaign which raised over 1 million shillings. The proceeds were handed over to the Kenya Red Cross for distribution. This was achieved despite our financial constraints and is testament to the dedication and commitment of our staff to those less fortunate in our society.

As part of the renewal strategy, there have also been a number of changes to the Board's non-executive directors. Our long serving directors, Mr. Isaac

The Board also approved the appointment of Mr. Waweru Mathenge as Company Secretary. With over 10 years experience in legal practice, Waweru has the skills and experience to support the Board and Management in the company's future development.

Despite the disappointing financial results for the past year, as a result of the initiatives being taken through changes at Board and senior management level, as well as reorganising the business and strengthening the financial base through the recent rights issue, property sales and loan restructuring and cost savings, the Board is confident of a much improved future performance for the company.



Awuondo, Mr. Kipng'etich Bett, Dr. Ernest Kioko and Mr. Nigel Pavitt, retired from the Board and the Company Secretary, Mr. Alfred Mugambi also left to pursue a career in banking. I wish to thank each of them for their very significant contribution to the company over many years.

The Board has recently approved the appointment of three new non-executive directors, Mr. James Kabuga and Mr. Albert Ruturi who joined the Board on 13 September 2005 and Mr Arun Devani who joined the Board on 21 October 2005. James represents the interests of PTA Bank which has been closely involved in reviving the fortunes of the company, having provided a loan of KShs 475 million repayable over a 6 year period. Albert has over 35 years experience in banking, latterly with Kenya Commercial Bank Limited, whilst Arun has a long and distinguished business career and is currently the chairman of the Kenya Association of Manufacturers.

On behalf of the Board of Directors, I wish to extend our sincere gratitude to our shareholders, customers and suppliers of Uchumi Supermarkets Ltd for their continued and loyal support during an exacting year and for their continuing confidence in the company as it embarks on a series of turnaround initiatives, planned to restore profitability. I also wish to thank the managing director and all the staff for their continued dedication, loyalty and commitment and for their perseverance throughout a very difficult period.

Eddah W. Gachukia
Chairperson.

Ninachukua fursa hii kuwasilisha Ripoti na maelezo ya kifedha ya kampuni yenu ya mwaka uliomalizikia tarehe 30 Juni, 2005 na pia kuelezea matukio muhimu yaliyotokea katika mwaka uliokwisha.

Mwaka huu tunao ujadili ulikuwa wa umuhimu mkubwa kwa kampuni yenu. Tulikabiliwa na matatizo mengi ya utendaji kazi na pia kuweza kupata mafanikio mengi ambayo Halmashauri yenu ina imani yatakuwa chanzo cha mabadiliko ya kuigeuza kampuni yenu kuwa bora zaidi.

Katika mwaka wa 2004, uchumi wa nchi ya Kenya ulifanya vizuri kuliko ule wa mwaka wa nyuma na kuimarika kwa asilimia 4. Hata hivyo, mapato yoyote yale yaliyopatikana kwa shughuli za kiuchumi yalipunguzwa thamani kwa kuongezeka kwa gharama ya maisha, hali ambayo ilisababishwa na nyongeza ya bei ya mafuta ulimwenguni kwa kiasi cha asilimia 60. Athari ya kupanda kwa gharama ya maisha aina hii hakukua na budi ila kuathiri vibaya biashara ya kampuni.

Sehemu ya awali ya mwaka, kampuni iliongozwa na Bwana Kipngetch Bett kama kaimu Mkurugenzi Mkuu. Hichi kilikuwa kipindi kigumu sana kwa Uchumi, ambayo ilikuwa na uhaba mkubwa wa fedha ulioletea hali ya kukosa bidhaa kwenye matawi yote na kusababisha kupoteza sana soko lake. Pongezi nyingi zimuendea Bwana Bett kwa kuweza kudhibiti usukani wakati huu mgumu na kujadiliana na benki na wanahisa mipango mingi ya kifedha ya kuisaidia kampuni. Ningependa kumshukuru Bwana Bett kwa huduma na unyenyekevu wake katika kuitumikia kampuni kwa miaka mingi.

Katika mwezi wa Oktoba 2004, Halmashauri ilimaliza harakati zake za kumtafuta Meneja mwenye ujuzi wa kuendesha kampuni inayo fanya biashara ya reja reja na kumteua Bwana John Masterten-Smith kutoka kampuni ya Spar ya huko Afrika Kusini kama Mkurugenzi mkuu. John ana ujuzi mwingi wa biashara ya reja reja na mtu mahiri kabisa wa kuweza kuongoza juhudi za mageuzi ya Uchumi na kudumisha nafasi yetu kama kampuni bora kabisa katika biashara ya reja reja katika sehemu hii.

Katika mwezi wa Machi 2005, Halmashauri ilimteua Bwana Richard Henry kama Mkurugenzi mhusika wa fedha na mikakati ya kampuni. Richard ana sifa ya kufaulu baada ya kufanya kazi na kampuni maarufu sana Kenya kama Serena Group na Nation Media Group. Ana ujuzi mkubwa wa kuisaidia Halmashauri kuweka mienendo na mipangilio ili kugeuza utekelezaji wa kifedha wa kampuni. Sasa ana jumuika na kundi la ma meneja lililo na uwezo mkubwa wa kuipeleka kampuni mbele.

Katika mwaka, kampuni imeanzisha mpango wa kuyakabili matatizo yaliyo ikumba na kuboresha utendaji kazi. Kufungwa kwa matawi kumi ambayo hayakua yakileta faida tarehe 10 February, 2005 ulikuwa ni uamuzi usio na budi lakini mgumu sana kwa minajili ya kuhakikisha kuweko kwa kampuni siku za mbeleni.

Mapato ya mauzo ya kampuni wakati wa kipindi hichi yalipungua kwa kutoka shilingi bilioni 8 hadi 5.2. Hii ilisababishwa na athari ya kufunga maduka 10 mnamo February 2005 pamoja na kupungua kwa nambari ya wateja na pia kushuka kwa matumizi ya kadiri kwa kila mteja haswa katika shughuli za Kenya.

Kutokana na kupungua kwa mauzo na kuongezeka kwa gharama ya pesa, hasara baada ya kodi ya mwaka uliomalizikia tarehe 30 Juni 2005 tunasikitika kua imeongezeka kufikia shilingi bilioni 1.2 ukilinganisha na shilingi milioni 699 ya mwaka uliopita.

Katika juhudi muhimu kabisa ya kupata fedha za kuifufua biashara, kampuni imefanikiwa, kupitia mpango wa Haki Miliki za Wenye Hisa (Rights Issue), kupata shilingi bilioni 1.2 ili kupunguza kiwango cha madeni na benki, kulipa deni la zamani la wenye bidhaa, kukeza ukarabati wa matawi na kuinua tena jina la Uchumi. Hatua pia zinachukuliwa ili kupunguza gharama za kufanya biashara, kuuza mali ya kampuni ambayo si muhimu katika biashara halisi na kuweka kiwango cha sawa sawa cha bidhaa.

Jumla ya shida za kifedha, kampuni imeendelea kusaidia mashirika mengi ya usaidizi bila ya malipo ambayo huwasaidia wahitaji katika jamii yetu.

Taarifa ya Mwenyekiti

Kuendeleza

Uhusiano wetu wa siku nyingi na Child Trust na The Association of People Living with Aids in Kenya (TAPWAK) ulitupatia fursa ya kuwasaidia watoto wanyonge waliopatwa na ugonjwa wa Ukimwi. Katika kitendo cha kusifiwa sana, wafanyikazi wetu walijumuika na Wakenya wengine katika kuchanga pesa na kununua chakula cha mfuko wa kampeni wa mwaka wa chakula ambao ulikusanya zaidi ya shilingi milioni moja. Mchango huo ulikabidhiwa shirika la Msalaba Mwekundu la Kenya ili ugawaniwe wahitaji. Jambo hili liliwezekana licha ya matatizo yetu wenyewe ya kifedha na hii inathibitisha imani ya wafanyikazi wetu juu ya wenzao waliokosa bahati kwenye jamii yetu.

mkopo wa kiasi cha shilingi milioni 475 utakaolipwa kwa kipindi cha zaidi ya miaka 6. Albert ana ujuzi wa zaidi miaka 35 katika fani ya benki hapa mwishowe na benki ya Biashara ya Kenya (KCB) ambapo Arun ni mfanyi biashara wa kutambulikana wa muda mrefu na sasa hivi ni mwenyekiti wa chama cha wazilishaji mali cha Kenya (Kenya Association of Manufacturers).

Halmashauri ya kampuni imeidhinisha kuteuliwa kwa Bwana Waweru Mathenge kama Muandishi wa kampuni. Akiwa na miaka zaidi ya kumi katika fani ya kisheria, Waweru ana umahiri na ujuzi wa kuisaidia Halmashauri na Wasimamizi wa kampuni katika maendeleo yake ya siku za usoni.

Ingawa matokea ya biashara ya kampuni ya mwaka uliopita ni ya kuvunja moyo, kulingana na mikakati inayofuatwa kupitia mabadiliko ya Halmashauri na Wasimamizi wa kampuni wa kiwango cha juu, vile vile mipangilio mipya ya kufanya kazi pamoja na kuimarishwa kwa misingi ya kifedha kupitia uuzaji wa hivi karibuni wa haki miliki ya hisa na uuzaji wa mali na pia kuimarisha mipangilio ya mikopo na kukata gharama za kufanya biashara, Halmashauri ina imani uendeshaji wa kampuni siku za mbele utaboreka.

Kati ya mikakati ya kuenua kampuni, kumekuwa na mabadilikio kadhaa katika wakurugenzi wa Halmashauri ambao sio watendaji. Wakurugenzi wetu wa miaka mingi, Bwana Isaac Awuondo, Bwana Kipngetich Bett, Dr. Ernest Kioko na Bwana Nigel Pavitt, walistaafu kutoka kwenye Halmashauri na Muandishi wa kampuni Bwana Alfred Mugambi aliwacha kazi na kufuata uajiri na benki. Ningependa kuwashukuru kila mmoja wao kwa mchango wao mkubwa kwa kampuni hii miaka hiyo yote.

Halmashauri ya kampuni hivi karibuni imekubali kuteuliwa kwa Wakurugenzi ambao sio watendaje wapya watatu, Mabwana James Kabuga na Albert Ruturi ambao walijiunga na Halmashauri tarehe 13 Septemba 2005 na Bwana Arun Devani aliyejiunga na Halmashauri tarehe 21 Octoba 2005. James anawakilisha masilahi ya Benki ya PTA ambayo imehusika na uenuaji wa kampuni baada ya kuipa

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kutoa shukrani zetu kwa Wanahisa, Wateja na Wenye bidhaa wa Uchumi Supermarkets Ltd kwa kuendelea kwao kutuunga mkono na kusimama nasi haswa wakati wa kipindi hichi kigumu cha mwaka uliopita na pia kwa imani yao katika kampuni vile jinsi ilivyoanza kutekeleza mipangilio yake kabambe ya kuigeuza kampuni irudi iwe yenye kupata faida. Ningependa pia kumshukuru Mkurugenzi mkuu na wafanyikazi wote kwa uthabiti, unyenyekevu, imani na ustahamilivu wao wakati wa kipindi hichi kigumu mno.

Eddah W Gachukia
Mwenyekiti



Managing Director's Report

This has been an eventful year for the company as we start out on the turnaround process for Uchumi Supermarkets aimed at recovering the leading position it has held over the years. However, the increase in inflation caused a decline in overall consumer purchasing power and created a tough and competitive trading environment.

A tight cash flow position made it difficult to maintain good supplier relations and consistent supplies of goods and this adversely affected customer relations. We lost market share to our competitors who launched new outlets during the period.

The year began with the search for a strategic equity partner, to help turn around your company's fortunes. However, the Board declined to accept the offers made by several interested parties, since they significantly undervalued the group. Therefore the Board decided to adopt a stand alone turnaround strategy that included the closure of unprofitable branches, loan restructuring, debt-to-equity conversion, sale and leaseback of our property portfolio and the recent successfully concluded Rights Issue. These measures have resulted in a considerable strengthening of the company's finances, which should enable Uchumi to recover rapidly in the year ahead, both within the existing branches and through the additional franchise stores as they come on stream.

The difficulties experienced, adversely affected the financial performance of the company during the year. Sales dropped by 35% due to the high incidence of stock-out situations combined with increased competition. Gross margin fell from 14.4% to 14.1% partly due to discounting prices to clear slow-moving stock and partly due to product mix with fewer high margin items on the shelves.

Provisions made for the year included KShs 88 million as a one-off asset impairment charge in respect of the closed branches. Finance costs increased by KShs 124 million due to an increase in local interest rates, and also due to additional borrowings of KShs 500 million from PTA Bank, and a KShs 105 million loan from our major shareholders. Following the closure of non-performing branches, operating costs decreased by KShs 182 million.

The efficient use of our Enterprise Resource Planning (ERP) system enabled the company to reduce the level of stockholding in June 2004 of 58 days to a world-class level of 25 days by June 2005.

Looking to the future, your company has established a number of key business priorities that will enable it to restore its competitive edge. Financial measures include the opening of up to ten new stores by the end of 2005 under the franchising business concept, which will increase the number of Uchumi brand stores accessible to the mwananchi. In addition, the group is now putting a much greater emphasis on specialty shops within the stores, thereby increasing significantly the product range available to our customers with excellent ranges of electrical goods, white goods, dry cleaning and much more as well. The move to dispose of non-strategic assets, mainly properties, and to focus on core business activities is already providing a significant boost to the group's cashflow and this is expected to continue during the current financial year as the remaining properties are sold.

The company is also increasing its focus on improving service to our customers. We intend to refurbish our stores, enhance our marketing activities and benefit from the recent strengthening of the buying department. With a return to more normal trading relationships, our customers can expect to find a greater product range than has been the case in the recent past. Despite the recent difficulties, it is encouraging to note that we remain in the forefront of the industry in the provision of fresh produce. We intend to expand and improve our 'fresh daily' concept including the installation of additional in-store bakeries.

The company recognises the key role that our employees play in achieving corporate objectives. The introduction of world class management techniques together with more customer service training is designed to enhance employee motivation and attention to customer needs. In addition, performance management techniques will aim to reward individual and team performance.

The board remains confident that a return to profitability can be achieved in a reasonable time frame. The Uchumi brand name is extremely powerful and customer and shareholder loyalty can be expected to ensure excellent medium and long term prospects for the company. With an increasing focus on creating a cost conscious and customer driven culture, Uchumi can be expected to achieve improved trading results, and shortly return to its position as the leading retailer in East Africa.

John Masterten-Smith
Managing Director

Statement on Corporate Governance

Governance

Governance refers to the process and structures used to direct and manage the affairs of a company so as to enhance business propriety and corporate accountability with the objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders. It is underpinned by the principles of openness, integrity and accountability.

Commitment to Good Corporate Governance

Corporate governance places responsibility for the overall business strategy, practices and policies on the board of directors. The directors of Uchumi Supermarkets remain committed to upholding the very highest standards of corporate governance and business ethics.

This commitment is demonstrated through consistent focus on actions that are targeted towards ensuring full compliance with all relevant laws as well as with the “Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya” issued by the Capital Markets Authority.

Corporate Social Responsibility

Uchumi Supermarkets remains committed to being a model corporate citizen that takes seriously its obligations to all its stakeholders and society at large. We continue to pay attention to financial prosperity coupled with a regard for environmental quality and social equity as measures of the results of our business activities. We also seek opportunities to give back to society by engaging with communities to improve the lives of especially the less fortunate members of our society. Each year we contribute to various children’s homes and the annual food fund. Uchumi Supermarkets also, with the Red Cross, continues to make available all our outlets as collection centres for our shoppers to make food donations for the hungry.

Board of Directors

The Board meets at least six times a year. Its current membership consists of two executive directors and eight non-executive directors. All the directors other than the managing director are subject to periodic retirement and re-election in accordance with the company’s Articles of Association.

The directors are given appropriate and regular information to enable them to maintain full and effective control over strategic, financial, operational and compliance issues. The Board has delegated authority for the conduct of day to day business to the managing director except for direction and general policy guidance.

Committees of the Board

The role of the Board is to ensure conformance by providing the groups overall strategic direction policy-making and performance review through accountability and by ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of

internal controls and for reviewing its effectiveness. The controls are designed both to safeguard the group’s assets and to ensure the reliability of financial information. Set out below are the key features of the existing corporate governance practices within the company.

The Board has two committees which meet regularly under terms of reference set by the Board.

The Finance and Audit Committee

The committee meets at least four times a year and additionally as required. It is chaired by a non-executive director, Mr Peter Mwangi. The committee’s main responsibilities include receiving and considering the company’s annual budgets and quarterly management accounts, adopting half-year interim results and annual financial statements, reviewing compliance with accounting standards, considering recommendations for capital expenditure, reviewing proposals for opening or closing branches and financing. The committee also reviews with management and the auditors the effectiveness of internal controls and matters raised in audit reports prior to their submission to the Board.

The Staff and Nomination Committee

The committee which is chaired by a non- executive director Ms. Kezzia Muniu, meets at least quarterly or as required and is responsible for the review of all human resource policies, approval of remuneration policy and for making recommendations to the Board on the remuneration of senior executives.

Internal Controls

The group has defined procedures and financial controls to ensure reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

Management Committee

Weekly senior management meetings are held to deal with operational issues, to improve communication and co-ordination in various business processes. Quarterly management meetings are also held to review performance and to encourage participation from all employees in the company’s activities.

Our Promise to Customers

We aim to provide a world-class shopping experience. We will achieve this through our people. We will provide the best careers in retailing, and we will invest in leading-edge technology to deliver top class efficiency across all our operations. Our promise is Uchumi “Great Value Always”.

Directors' Report

for the year ended 30 June 2005

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

PRINCIPAL ACTIVITIES

The principal activity of the group is that of operating retail supermarkets.

RESULTS AND DIVIDEND

The loss for the year of Shs 1,227,203,000 (2004: Shs 698,911,000) has been added to the accumulated loss. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who held office during the year and to the date of this report were:

Dr. Eddah W Gachukia	Chairperson
Mr. John Masterten-Smith	Managing Director, appointed 1 November 2004
Mr. Isaac O Awuondo	(resigned 8 February 2005)
Mr. Kipng'etich K. Bett	(resigned 8 February 2005)
Mr. Arun Devani	(appointed 21 October 2005)
Mr. Richard C. Henry	(appointed 21 March 2005)
Industrial and Commercial Development Corporation	
ICDC Investment Company Limited	
Mr. James Kabuga	(appointed 13 September 2005)
KWA Holdings (E.A.) Limited	
Dr. Ernest M. Kioko	(resigned 8 February 2005)
Mr. Nigel R. Pavitt	(resigned 8 February 2005)
Permanent Secretary, Ministry of Trade and Industry	
Mr. Albert Ruturi	(appointed 13 September 2005)

AUDITORS

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

By order of the Board

Waweru G. Mathenge
Company Secretary

25 October 2005

Statement of Directors' Responsibilities

for the year ended 30 June 2005

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

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 the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

As stated in Note 3 of the financial statements, the directors, after taking into account various matters, are of the opinion that the group will remain a going concern for at least twelve months from the date of this statement.

John Masterten-Smith
Director

Dr. Eddah W. Gachukia
Director

25 October 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	Notes	2005 Shs'000	2004 Shs'000
Sales	4	5,166,480	7,962,986
Cost of sales		(4,437,683)	(6,814,950)
Gross profit		728,797	1,148,036
Other operating income	5	21,388	232,896
Operating costs	6	(1,828,216)	(2,010,617)
Operating loss	7	(1,078,031)	(629,685)
Finance costs	9	(149,172)	(24,673)
Loss before income tax		(1,227,203)	(654,358)
Income tax expense	10	-	(44,553)
Loss for the year		(1,227,203)	(698,911)
		Shs	Shs
Loss per share (basic and diluted)	11	(20.45)	(11.65)

Consolidated Balance Sheet

for the year ended 30 June 2005

	Notes	2005 Shs'000	2004 Shs'000
CAPITAL EMPLOYED			
Share capital	12	300,000	300,000
Share premium	12	129,452	129,452
Revaluation surplus	14	167,403	178,652
Translation reserve		(8,610)	(12,042)
Accumulated loss		(1,702,051)	(486,097)
Shareholders' (deficit)/funds		(1,113,806)	109,965
Non-current liabilities			
Borrowings	23	775,978	416,308
		(337,828)	526,273
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15	1,006,773	1,481,493
Prepaid operating lease rentals	16	160,277	161,456
Intangible assets	18	135,254	209,200
Amounts due from related parties	27	-	1,582
		1,302,304	1,853,731
Current assets			
Inventories	19	288,306	940,837
Receivables and prepayments	20	203,785	367,349
Current income tax		21,538	30,882
Cash and bank balances	21	38,004	72,298
		551,633	1,411,366
Current liabilities			
Payables and accrued expenses	22	1,556,668	2,026,617
Borrowings	23	635,097	712,207
		2,191,765	2,738,824
Net current liabilities		(1,640,132)	(1,327,458)
		(337,828)	526,273

The financial statements on pages 15 to 40 were approved for issue by the board of directors on 25 October 2005 and signed on its behalf by:

John Masterten-Smith
Director

Dr. Eddah W. Gachukia
Director

Company Balance Sheet

for the year ended 30 June 2005

	Notes	2005 Shs'000	2004 Shs'000
CAPITAL EMPLOYED			
Share capital	12	300,000	300,000
Share premium	12	129,452	129,452
Revaluation surplus	14	167,403	178,652
Accumulated loss		(1,702,051)	(486,097)
Shareholders' (deficit)/funds		(1,105,196)	122,007
Non-current liabilities			
Borrowings	23	775,978	416,308
		(329,218)	538,315
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15	928,176	1,380,672
Prepaid operating lease rentals	16	57,843	57,821
Investment in subsidiaries	17	-	-
Intangible assets	18	135,254	209,200
Amounts due from related parties	27	132,058	133,640
		1,253,331	1,781,333
Current assets			
Inventories	19	243,350	804,803
Receivables and prepayments	20	247,926	452,924
Current income tax		9,895	30,882
Cash and bank balances	21	21,891	70,443
		523,062	1,359,052
Current liabilities			
Payables and accrued expenses	22	1,493,194	1,896,890
Borrowings	23	612,417	705,180
		2,105,611	2,602,070
Net current liabilities		(1,582,549)	(1,243,018)
		(329,218)	538,315

The financial statements on page 15 to 40 were approved for issue by the board of directors on 25 October 2005 and signed on its behalf by:

John Masterten-Smith
Director

Dr. Eddah W. Gachukia
Director

Group Statement of Changes in Equity

for the year ended 30 June 2005

	Share Capital Shs'000	Share Premium Shs'000	Revaluation Surplus Shs'000	Translation Reserve Shs'000	Accumulated Loss Shs'000	Total Shs'000
Year ended 30 June 2004						
At start of year	300,000	129,452	101,946	841	169,602	701,841
Revaluation surplus	-	-	119,918	-	-	119,918
Transfer of excess depreciation	-	-	(6,908)	-	6,908	-
Deferred income tax on transfer	-	-	2,072	-	(2,072)	-
Released on disposals	-	-	(54,822)	-	54,822	-
Deferred income tax on disposals	-	-	16,446	-	(16,446)	-
Translation loss	-	-	-	(12,883)	-	(12,883)
Net gains/(losses) not recognised in income statement	-	-	76,706	(12,883)	43,212	107,035
Loss for the year	-	-	-	-	(698,911)	(698,911)
At end of year	300,000	129,452	178,652	(12,042)	(486,097)	109,965
Year ended 30 June 2005						
At start of year	300,000	129,452	178,652	(12,042)	(486,097)	109,965
Transfer of excess depreciation	-	-	(7,871)	-	7,871	-
Deferred income tax on transfer	-	-	2,361	-	(2,361)	-
Released on disposals	-	-	(8,199)	-	8,199	-
Deferred income tax on disposals	-	-	2,460	-	(2,460)	-
Translation gain	-	-	-	3,432	-	3,432
Net (losses)/gains not recognised in income statement	-	-	(11,249)	3,432	11,249	3,432
Loss for the year	-	-	-	-	(1,227,203)	(1,227,203)
At end of year	300,000	129,452	167,403	(8,610)	(1,702,051)	(1,113,806)

Company Statement of Changes in Equity

for the year ended 30 June 2005

	Share Capital Shs'000	Share Premium Shs'000	Revaluation Surplus Shs'000	Accumulated Loss Shs'000	Total Shs'000
Year ended 30 June 2004					
At start of year	300,000	129,452	101,946	169,602	701,000
Revaluation surplus	-	-	119,918	-	119,918
Transfer of excess depreciation	-	-	(6,908)	6,908	-
Deferred income tax on transfer	-	-	2,072	(2,072)	-
Released on disposals	-	-	(54,822)	54,822	-
Deferred income tax on disposals	-	-	16,446	(16,446)	-
Net gains not recognised in income statement	-	-	76,706	43,212	119,918
Loss for the year	-	-	-	(698,911)	(698,911)
At end of year	300,000	129,452	178,652	(486,097)	122,007
Year ended 30 June 2005					
At start of year	300,000	129,452	178,652	(486,097)	122,007
Transfer of excess depreciation	-	-	(7,871)	7,871	-
Deferred income tax on transfer	-	-	2,361	(2,361)	-
Released on disposals	-	-	(8,199)	8,199	-
Deferred income tax on disposals	-	-	2,460	(2,460)	-
Net (losses)/gains not recognised in income statement	-	-	(11,249)	11,249	-
Loss for the year	-	-	-	(1,227,203)	(1,227,203)
At end of year	300,000	129,452	167,403	(1,702,051)	(1,105,196)

Consolidated Cash Flow Statement

for the year ended 30 June 2005

	Notes Shs'000	2005 Shs'000	2004
Operating activities			
Cash (used in)/generated from operations	26	(388,572)	184,574
Interest received	9	-	6
Interest paid	9	(144,018)	(60,039)
Income tax refund		9,344	-
Net cash (used in)/from operating activities		<u>(523,246)</u>	<u>124,541</u>
Investing activities			
Purchase of property, plant and equipment	15	(15,536)	(249,739)
Purchase of intangible assets	18	-	(72,057)
Proceeds from disposal of property, plant and equipment		216,294	693
Net cash from/(used in) investing activities		<u>200,758</u>	<u>(321,103)</u>
Financing activities			
Proceeds from long term borrowing		604,144	550,000
Repayments on long term borrowing		(122,623)	(35,672)
Net cash from financing activities		<u>481,521</u>	<u>514,328</u>
Increase in cash and cash equivalents		<u>159,033</u>	<u>317,766</u>
Movement in cash and cash equivalents			
At start of year		(541,889)	(829,272)
Increase		159,033	317,766
Effect of exchange rate movements on cash and cash equivalents		5,634	(30,383)
At end of year	21	<u>(377,222)</u>	<u>(541,889)</u>

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and are prepared under the historical cost convention as modified by the revaluation of freehold land and buildings.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Revenue recognition

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

Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Interest income is recognised on a time proportion basis using the effective interest method.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into the functional currency at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on regular valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Accounting Policies Continued

for the year ended 30 June 2005

(d) Property, plant and equipment (continued)

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

Buildings on freehold land	Over a period of 45 years
Buildings on leasehold land	Over the lease period
Improvements to premises	10%
Plant and machinery	20%
Equipment and motor vehicles	15%, 20% and 25% (as applicable)

Freehold land is not depreciated as it is deemed to have an indefinite life.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in revaluation surplus relating to that asset are transferred to retained earnings.

(e) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over a period of four years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding four years).

(f) Accounting for leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

(h) Receivables

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

(i) Employee benefits

(i) Retirement benefit obligations

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

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

(ii) Other entitlements

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

(j) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan and Ugandan Income Tax Acts.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using income tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(k) Dividends

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

Accounting Policies Continued

for the year ended 30 June 2005

(l) Investments in subsidiaries

Investments in subsidiaries are carried in the company's balance sheet at cost less provisions for impairment losses. Where, in the opinion of the Directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

(m) Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(n) Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided for in advance.

(o) Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The income statements of foreign subsidiaries are translated at the average exchange rates for the year and balance sheets at the year-end rates. The resulting differences from translation are dealt with in a separate reserve in equity.

Details of the company's subsidiaries are set out on Note 17.

(p) Comparatives

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

Notes Forming Part of the Financial Statements

for the year ended 30 June 2005

1 General information

The company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The address of its registered office is:

Uchumi Supermarkets Limited
Yarrow Road
Industrial Area
PO Box 73167 - 00200
NAIROBI.

2 Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme seeks to minimise potential adverse effects on its financial performance within the options available to hedge against such risks.

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

3 Subsequent events and going concern

The group incurred a net loss of Shs 1,227,203,000 during the year ended 30 June 2005, and as at that date, it had a shareholders' deficit of Shs 1,113,806,000. The group's current liabilities exceeded its current assets by Shs 1,640,132,000 and it had net liabilities of Shs 337,828,000 as at 30 June 2005.

At the annual general meeting held on 10 December 2004, shareholders approved the increase in authorised share capital from 60,000,000 ordinary shares to 300,000,000 ordinary shares. Subsequent to the year end, the Board of Directors approved a rights issue of 120,000,000 new ordinary shares with a par value of Shs 5.00, at the rate of two new ordinary shares for every one ordinary share held of par value of Shs 5.00, for a price of Shs 10.00 per new ordinary share. The intention of the directors was to raise Shs 1,200,000,000 before issue costs, if the issue was fully subscribed. Details of the rights issue are contained in an Information Memorandum dated 26 August 2005.

The record date for the rights issue was 22 August 2005 and the closing date for the receipt of complete Provisional Allotment Letters and payment in full under the rights issue was 7 October 2005. The rights issue was oversubscribed by 5.9%. The net proceeds from the rights issue are to be used to pay overdue creditors, retire the short term bank debt, refurbish the company's older stores and pay for an aggressive marketing campaign to regain lost market share.

Although the group will continue to have a net current liability situation in the foreseeable future, the directors believe that the restructuring that has been carried out, implementing the business turnaround strategy and the proceeds of the rights issue will enable a return to profitability and liquidity. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

12 Share capital

	Number of shares in issue (Thousands)	Ordinary share capital Shs'000	Share premium Shs'000
Balance at 30 June 2005 and at 30 June 2004	60,000	300,000	129,452

At an annual general meeting held on 10 December 2004, the authorised share capital was increased to 300,000,000 shares with a par value of Shs 5 and 25,000,000 preference shares with a par value of Shs 20 each.

The total number of ordinary shares issued at year end was 60,000,000 with a par value of Shs 5 per share. All issued shares are fully paid. The preference shares have not been issued.

13 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
At start of year	-	(44,553)	-	(44,553)
Charge to profit and loss account (Note 10)	-	44,553	-	44,553
At end of year	-	-	-	-

Deferred income tax assets and liabilities are attributable to the following items:

Group

	1.7.2004 Shs'000	Charged/ (credited) to P/L Shs'000	30.6.2005 Shs'000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost basis	(16,819)	(25,752)	(42,571)
- on revaluation surpluses	22,244	36,187	58,431
	5,425	10,435	15,860
Deferred income tax assets			
Provisions	(51,335)	(30,459)	(81,794)
Unrealised exchange losses	(110)	66	(44)
Income tax losses	(211,974)	(333,516)	(545,490)
	(263,419)	(363,909)	(627,328)
Net deferred income tax asset	(257,994)	(353,474)	(611,468)
Deferred income tax asset not recognised	257,994	353,474	611,468
Deferred income tax on the balance sheet	-	-	-

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

13 Deferred income tax (continued)

Company

	1.7.2004 Shs'000	Charged/ (credited) to P/L Shs'000	30.6.2005 Shs'000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost basis	(16,354)	(23,945)	(40,299)
- on revaluation surpluses	22,244	36,187	58,431
	<u>5,890</u>	<u>12,242</u>	<u>18,132</u>
Deferred income tax assets			
Provisions	(64,018)	(29,207)	(93,225)
Unrealised exchange losses	(110)	66	(44)
Income tax losses	(169,021)	(300,118)	(469,139)
	<u>(233,149)</u>	<u>(329,259)</u>	<u>(562,408)</u>
Net liability / (asset)	(227,259)	(317,017)	(544,276)
Deferred income tax asset not recognised	<u>227,259</u>	<u>317,017</u>	<u>544,276</u>
Deferred income tax on the balance sheet	-	-	-

Deferred income tax of Shs 2,361,000 (2004: Shs 2,072,000) is transferred within shareholders' equity (for both group and company) from revaluation surplus to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

The deferred income tax asset has not been recognised in accordance with the accounting policy.

14 Revaluation surplus (Group and Company)

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

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

15 Property, plant and equipment

Group

	Buildings & freehold land Shs'000	Improvements to premises Shs'000	Plant and machinery Shs'000	Vehicles and equipment Shs'000	Total Shs'000
Cost or valuation					
At start of year	646,000	382,827	432,774	724,626	2,186,227
Additions	-	6,268	2,145	7,123	15,536
Disposals	(112,000)	(102,110)	(86,855)	(128,802)	(429,767)
Reclassification to prepaid operating lease rentals (Note 16)	-	(32,110)	-	-	(32,110)
Exchange differences	-	(1,386)	(1,673)	(1,076)	(4,135)
At end of year	534,000	253,489	346,391	601,871	1,735,751
Depreciation					
At start of year	-	73,849	248,898	381,987	704,734
On disposals	(2,100)	(41,716)	(70,455)	(77,055)	(191,326)
Charge for the year	17,450	34,942	60,371	108,719	221,482
Reclassification to prepaid operating lease rentals (Note 16)	-	(3,983)	-	-	(3,983)
Exchange differences	-	(426)	(1,030)	(473)	(1,929)
At end of year	15,350	62,666	237,784	413,178	728,978
Net book amount					
At 30 June 2005	518,650	190,823	108,607	188,693	1,006,773
At 30 June 2004	646,000	308,978	183,876	342,639	1,481,493

In the opinion of the directors, appropriate provisions have been made for impaired property, plant and equipment.

Buildings and freehold land were valued in June 2004 by Lloyd Masika Limited, independent professional valuers. Valuations were made on the basis of open market value. The book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to revaluation surplus in equity.

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

15 Property, plant and equipment

Company	Buildings & freehold land Shs'000	Improvements to premises Shs'000	Plant and machinery Shs'000	Vehicles and equipment Shs'000	Total Shs'000
Cost or valuation					
At start of year	646,000	338,144	378,811	690,888	2,053,843
Additions	-	6,268	2,145	6,464	14,877
Disposals	(112,000)	(102,110)	(86,855)	(128,802)	(429,767)
Reclassification to prepaid operating lease rentals(Note 16)	-	(32,110)	-	-	(32,110)
At end of year	534,000	210,192	294,101	568,550	1,606,843
Depreciation					
At start of year	-	66,824	231,946	374,401	673,171
On disposals	(2,100)	(41,715)	(70,455)	(77,055)	(191,325)
Charge for the year	17,450	30,403	49,408	103,543	200,804
Reclassification to prepaid operating lease rentals (Note 16)	-	(3,983)	-	-	(3,983)
At end of year	15,350	51,529	210,899	400,889	678,667
Net book amount					
At 30 June 2005	518,650	158,663	83,202	167,661	928,176
At 30 June 2004	646,000	271,320	146,865	316,487	1,380,672

In the opinion of the directors, appropriate provisions have been made for impaired property, plant and equipment.

Buildings and freehold land were valued in June 2004 by Lloyd Masika Limited, independent professional valuers. Valuations were made on the basis of open market value. The book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to revaluation surplus in equity.

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

Group and company

	2005 Shs'000	2004 Shs'000
Cost	361,622	418,754
Accumulated depreciation	(68,798)	(65,108)
Net book amount	292,824	353,646

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

16 Prepaid operating lease rentals

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
At start of year	161,456	230,267	57,821	120,244
Net book amount reclassified from/(to) property, plant and equipment (Note 15)	28,127	(22,737)	28,127	(22,737)
Amortisation	(2,843)	(7,877)	(1,642)	(1,489)
Disposals	(26,463)	(38,197)	(26,463)	(38,197)
At end of year	160,277	161,456	57,843	57,821

17 Investments in subsidiaries (Company)

	Country of incorporation Shareholding		2005 Shs'000	2004 Shs'000
Uchumi Supermarkets (Uganda) Limited	Uganda	100%	60,000	60,000
Kasarani Mall Limited	Kenya	100%	200	200
			60,200	60,200
Less: provision for impairment			60,200	60,200
			-	-

Subsidiary

Principal activity

Uchumi Supermarkets (Uganda) Limited
Kasarani Mall Limited

Operation of retail supermarket
Property management

The results of Uchumi Supermarkets (Uganda) Limited and Kasarani Mall Limited have been consolidated in the financial statements. There are other wholly owned subsidiaries; Uchumi Supermarkets (Tanzania) Limited and Uchumi Holdings Limited, incorporated in Tanzania and Kenya respectively which have each issued two shares of nominal amounts. These subsidiaries did not have any transactions during the year.

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

18 Intangible assets

	Computerisation and software costs Shs'000	Pre- operating costs Shs'000	Total Shs'000
Group			
Year ended 30 June 2004			
Opening net book amount	203,075	7,667	210,742
Cost recognised as an asset	72,057	-	72,057
Amortisation charge	(65,932)	(7,667)	(73,599)
Closing net book amount	209,200	-	209,200
Year ended 30 June 2005			
Opening net book amount	209,200	-	209,200
Amortisation charge	(73,946)	-	(73,946)
Closing net book amount	135,254	-	135,254
Company			
Year ended 30 June 2004			
Opening net book amount	203,075	-	203,075
Cost recognised as an asset	72,057	-	72,057
Amortisation charge	(65,932)	-	(65,932)
Closing net book amount	209,200	-	209,200
Year ended 30 June 2005			
Opening net book amount	209,200	-	209,200
Amortisation charge	(73,946)	-	(73,946)
Closing net book amount	135,254	-	135,254

19 Inventories

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Food	112,935	282,646	99,989	253,093
Non-food	154,448	619,790	124,239	526,430
Other	20,923	26,864	19,122	25,280
Goods in transit	-	11,537	-	-
	288,306	940,837	243,350	804,803

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

20 Receivables and prepayments

	Group		Company	
	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	34,346	51,716	28,955	39,311
Less: provision for impairment	(16,235)	(18,575)	(16,235)	(18,575)
	18,111	33,141	12,720	20,736
Amounts due from related parties (Note 27)	601	725	63,024	125,704
Prepayments and other receivables	182,772	244,718	172,182	244,718
VAT	2,301	88,765	-	61,766
	203,785	367,349	247,926	452,924

21 Cash and bank balances

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following:

Cash and bank balances	38,004	72,298	21,891	70,443
Bank overdrafts (Note 23)	(415,226)	(614,187)	(392,546)	(607,160)
	(377,222)	(541,889)	(370,655)	(536,717)

22 Payables and accrued expenses

Trade payables	1,255,074	1,798,840	1,246,810	1,692,203
Amounts due to related parties (Note 27)	2,754	26,279	2,754	26,279
Accrued expenses	143,680	48,774	142,588	39,581
Other payables	155,160	152,724	101,042	138,827
	1,556,668	2,026,617	1,493,194	1,896,890

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

23 Borrowings

Borrowings are made up as follows:

	Group		Company	
	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000
Non-current				
Term loan	775,978	416,308	775,978	416,308
Current				
Bank overdraft	415,226	614,187	392,546	607,160
Term loan	219,871	98,020	219,871	98,020
	635,097	712,207	612,417	705,180
	1,411,075	1,128,515	1,388,395	1,121,488

Maturity profile of non-current borrowings:

	2005	2004
	Shs'000	Shs'000
Group and company		
Between 1 and 2 years	219,405	105,106
Between 2 and 5 years	477,406	311,202
Over 5 years	79,167	-
	775,978	416,308

Term loan (group and company)

Non current

Eastern and Southern African Trade and Development Bank	415,625	-
Kenya Commercial Bank Limited	360,353	416,308
	775,978	416,308

Current

Eastern and Southern African Trade and Development Bank	59,375	-
Kenya Commercial Bank Limited	56,352	98,020
Industrial and Commercial Development Corporation	24,144	-
ICDC Investment Company Limited	80,000	-
	219,871	98,020

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

23 Borrowings (continued)

The term loan from Kenya Commercial Bank Limited is repayable over a period of five years ending 26 November 2008.

The term loan from Eastern and Southern African Trade and Development Bank was disbursed during the year and is repayable over a period of six years from 31 August 2005.

The above borrowings (current and non-current) are secured by a debenture with a first legal charge over the entire assets of the company and with a floating charge over stocks and debtors.

The unsecured loans from Industrial and Commercial Development Corporation and Industrial and Commercial Development Corporation Investments Limited were advanced in July 2004. These two companies are shareholders in the company. Subsequent to the year end, they have participated in the rights issue (see Note 3) and have applied for rights to the extent of the loan capital and accrued interest as at 30 June 2005.

The weighted average effective interest rate at the year end was:

	2005	2004
- Term Loan	13.5%	7.0%
- Money market facility	8.5%	3.7%
- Bank overdrafts	12.8%	4.2%

In the opinion of the directors, the carrying amounts of borrowings approximate to their fair values. Fair values are based on discounted cash flows using a discount rate based on the borrowing rate that directors expect would be available to the group at the balance sheet date.

The group and company have the following un-drawn committed borrowing facilities:

	Group		Company	
	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000
Floating rate				
- expiring within one year	-	52,840	-	52,840

The facilities are renewable and are subject to review at various dates over the next 12 months.

24 Contingent liabilities

The group is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

25 Commitments

Capital commitments

There were no contracted capital commitments as at 30 June 2005 and as at 30 June 2004.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than one year	275,545	313,427	234,969	263,832
Later than one year and not later than five years	680,601	898,381	628,343	782,161
Later than five years	710,249	320,856	710,249	320,856
	<u>1,666,395</u>	<u>1,532,664</u>	<u>1,573,561</u>	<u>1,366,849</u>

26 Cash (used in)/generated from operations

Reconciliation of loss before income tax to cash (used in)/generated from operations:

	2005	2004
	Shs'000	Shs'000
Loss before income tax	(1,227,203)	(654,358)
Adjustments for:		
Depreciation on property, plant and equipment (Note 15)	221,482	197,408
Deficit on revaluation of property, plant and equipment	-	45,113
Amortisation of prepaid operating lease rentals (Note 16)	2,843	7,877
Amortisation of intangible assets (Note 18)	73,946	73,599
(Loss)/profit on sale of property, plant and equipment	22,147	(94,007)
(Loss)/profit on sale of leasehold property	26,463	(9,303)
Interest income (Note 9)	-	(6)
Interest expense (Note 9)	144,018	60,039
Changes in working capital		
- receivables and prepayments	165,147	13,318
- inventories	652,531	323,304
- payables and accrued expenses	(469,946)	221,590
Cash (used in)/generated from operations	<u>(388,572)</u>	<u>184,574</u>

Included in receivables is Shs 176,967,000 relating to properties sold for which the proceeds had not been received as at 30 June 2005.

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

27 Related party transactions

The group is related to various other entities through common shareholdings and/or directorships. The following transactions were carried out with related parties:

i) Sale of goods and services

	2005 Shs'000	2004 Shs'000
Industrial and Commercial Development Corporation	278	262
Kenya Wine Agencies Limited	109	568
	<u>387</u>	<u>830</u>

ii) Purchase of goods and services

Industrial and Commercial Development Corporation	905	991
Kenya Wine Agencies Limited	8,968	27,651
	<u>9,873</u>	<u>28,642</u>

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

Amounts due from related parties

Group

Industrial and Commercial Development Corporation	3	80
Kenya Wine Agencies Limited	598	645
	<u>601</u>	<u>725</u>

Non-current receivables

Group

Loans to senior staff members	-	1,582
-------------------------------	---	-------

Company

Loans:

Uchumi Supermarkets (Uganda) Limited	75,000	75,000
Kasarani Mall Limited	110,511	110,511
Senior staff members	-	1,582

	185,511	187,093
Less: provision for impairment losses	(53,453)	(53,453)
	<u>132,058</u>	<u>133,640</u>

Notes Forming Part of the Financial Statements Continued

for the year ended 30 June 2005

27 Related party transactions (continued)

Represented by:

	2005 Shs'000	2004 Shs'000
Uchumi Supermarkets (Uganda) Limited	31,764	31,764
Kasarani Mall Limited	100,294	100,294
Senior staff members	-	1,582
	<u>132,058</u>	<u>133,640</u>

Current receivables

Uchumi Supermarkets (Uganda) Limited	97,503	121,638
Less: provision for impairment losses	(38,421)	-
	<u>59,082</u>	<u>121,638</u>
Kasarani Mall Limited	3,341	3,341
Industrial and Commercial Development Corporation	3	80
Kenya Wine Agencies Limited	598	645
	<u>63,024</u>	<u>125,704</u>

The loans to subsidiary companies are interest free and there is no fixed repayment date.

Amounts due to related parties

Group and company

Industrial and Commercial Development Corporation	2,754	1,982
Kenya Wine Agencies Limited	-	24,297
	<u>2,754</u>	<u>26,279</u>

iv) Directors' remuneration

- fees for services as a director	180	360
- other emoluments	14,139	20,085
	<u>14,319</u>	<u>20,445</u>

Disclosures on borrowings with related parties are shown in Note 23.

Principal Shareholders and Distribution Schedule

for the year ended 30 June 2005

Principal Shareholders:

The ten largest shareholders of the company and their respective holdings as at 14 October 2005 were as follows:

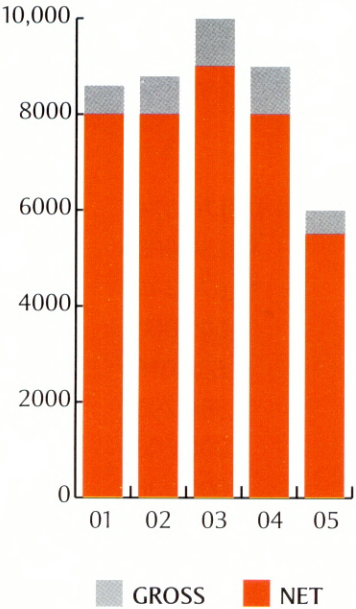
No.	Name	No. of Shares	Percentage Holding
1	ICDC Investment Company Ltd	18,176,374	10.1%
2	KWA Holdings E.A Ltd	11,250,000	6.3%
3	Jamal Karim	10,670,345	5.9%
4	Barclays Nominees (Kenya) Ltd A/C 9099	6,009,000	3.3%
5	Industrial & Commercial Development Corporation	5,630,016	3.1%
6	Barclays Nominees (Kenya) Ltd A/C 9057	5,386,290	3.0%
7	Sanjay, Umesh & Kantilal Raikundalia	5,000,000	2.8%
8	P.B Kotecha, A.U Khamar & Sanjay Raikundalia	5,000,000	2.8%
9	Sunil Narshi Shah	3,972,743	2.2%
10	DSL Nominees Ltd A/C 2210	3,156,343	1.8%

Distribution Schedule:

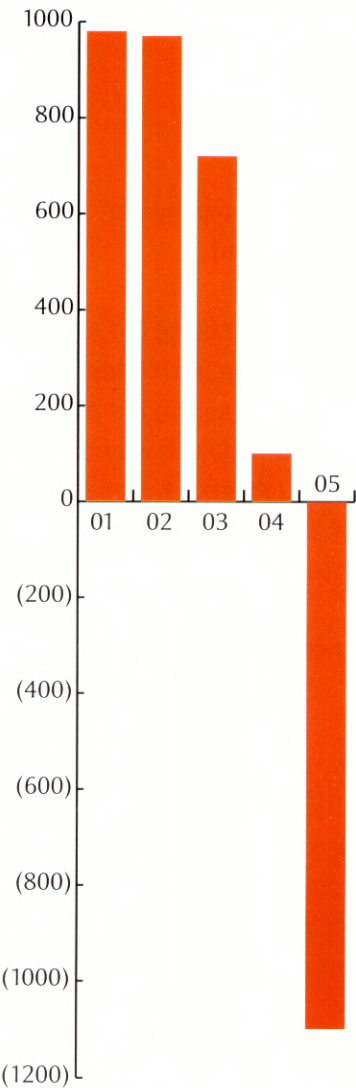
Category	No. of Shareholders	No. of Shares
1 - 1,000 shares	5,390	3,103,047
1,001 - 5,000	4,302	10,854,321
5,001 - 10,000	1,009	7,914,124
10,001 - 100,000	1,198	32,582,490
100,001 and over	166	125,546,018
Total	12,065	180,000,000

Financial Highlights

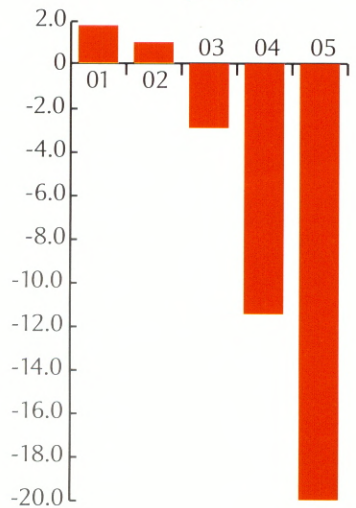
Turnover
(Shs million)



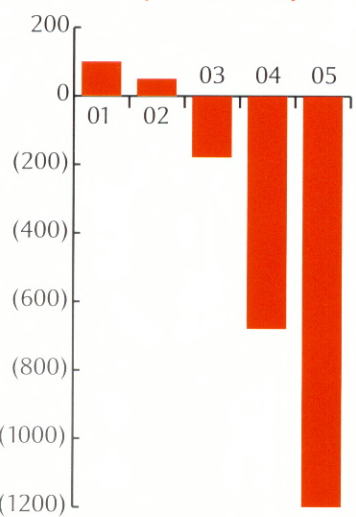
Shareholders Funds
(Shs million)



Earnings Per Share
(Shs)



Profit/ (Loss) After Tax
(Shs million)





Proxy Form

I/We _____ Member No. _____

of (address) _____

being a member/s of Uchumi Supermarkets Limited hereby appoint

_____ of (address) _____

or failing him the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 27th Annual General Meeting of the company to be held on Tuesday, 13 December, 2005 at 3.00 p.m. or at any adjournment thereof.

As witness my/our hand/hands this _____ day of _____ 2005
Signature

Notes:

1. This proxy is to be delivered to the company's registered office not later than 3.00 p.m. on Friday, 9 December, 2005 failing which it will be invalid.
2. In case of a corporation, the proxy must be under its common seal.

Uwakilishi

Mimi/Sisi _____ Nambari ya Mwanahisa _____

wa (anuani) _____

kama mwenyehisa/wenyehisa wa Uchumi Supermarkets Limited namchagua/tunamchagua

_____ wa (anuani) _____

au akikosa yeye basi namchagua/tunamchagua yule aliyechaguliwa kuwa Mwenyekiti wa mkutano mkuu wa mwaka wa ishirini na saba wa kampuni utakaofanywa siku ya Jumanne, Desemba 13, 2005 saa tisa alasiri ama siku yoyote ile iwapo mkutano utahairishwa.

Kama ushahidi ninatia/tunatia sahihi hii/hizi tarehe _____ mwezi _____ 2005
Sahihi

Ukumbusho:

1. Uwakilishi huu utemwe kwa afisi kuu ya kampuni kabla ya saa tisa alasiri, Ijumaa, tarehe 9 Desemba, 2005 ikikosa hivyo hautafaa kitu.
2. Kwa upande wa makampuni uwakilishi ni lazima uwe umebandikwa ule muhuri wao wa kawaida.

FOLD 2
PILI KUNJA HAPA

STAMP

COMPANY SECRETARY

Uchumi Supermarkets Limited
Yarrow Road, off Nanyuki Road
P.O. Box 73167 - 00200
Nairobi.

FOLD 1
KWANZA KUNJA HAPA

FOLD 3
HALAFU KUNJA HAPA

INSERT FLAP INSIDE
SASA INGIZA KARATASI HII NDANI YA KMUNJO KAMA BAHASHA

