



UCHUMI SUPERMARKETS LIMITED
AND SUBSIDIARIES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

30 JUNE 2010

ERNST & YOUNG

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2010

PRINCIPAL PLACE OF BUSINESS

Uchumi Supermarkets Limited
Yarrow Road,
Off Nanyuki Road
P.O. Box 73167
00200 NAIROBI

REGISTRARS

Funguo Registrars Limited
Uchumi House
Moi Avenue
P.O. Box 1133
00200 NAIROBI

REGISTERED OFFICE

Uchumi Supermarkets Limited
Yarrow Road,
Off Nanyuki Road
P.O. Box 73167
00200 NAIROBI

BANKERS

Kenya Commercial Bank Limited
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

Barclays Bank of Kenya Limited
Barclays Plaza
Loita Street
P.O. Box 30120
00100 NAIROBI

Equity Bank Limited
NHIF Building
P.O. Box 75104
00200 NAIROBI

AUDITORS

Ernst & Young
Kenya Re Towers - Upper Hill
P.O. Box 44286
00100 NAIROBI

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
REPORT OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2010

The directors submit his report and the audited financial statements for the year ended 30 June 2010 which show the state of the group's affairs.

1. PRINCIPAL ACTIVITIES

The principal activity of the company is that of operating retail supermarkets. The activities of the subsidiary companies are those recorded in note 7 to the financial statements.

2. OPERATIONS OF THE COMPANY

On 31 May 2006, the Board and Management of Uchumi Supermarkets Limited passed a resolution to cease trading and the company operations were shut down, a closure that lasted from 1 June 2006 to 14 July 2006.

Following the decision to cease trading, the company's debenture holders were compelled to appoint Receiver Managers on 02 June 2006. Subsequently, the Government of Kenya appointed a Task Force, in collaboration with the debenture holders, to work out a 'rescue plan' for the company. On the recommendation of the Task Force, a Framework Agreement relating to a business rescue plan was drawn and was entered into between the company, debenture holders, the Government of Kenya and unsecured creditors.

On 14 July 2006, the debenture holders appointed a Specialist Receiver Manager and the company re-opened for operations on 15 July 2006.

The group put in place Uchumi Rescue Plan (URP) whose mandate was derived from a 'Framework Agreement' with the Government of Kenya and other stakeholders aimed at turning around the business.

On 4 March 2010, the debenture holders lifted the receivership. The company has since applied to the Capital Markets Authority for approval to lift the suspension of the company's shares from trading on the Nairobi Stocks Exchange.

3. RESULTS

The group's and the company's results are set out on pages 8 and 11, respectively.

4. DIVIDEND

The directors do not recommend the payment of dividend for the year.

5. RESERVES

The reserves of the group and the company are set out on note 13.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
REPORT OF DIRECTORS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

6. DIRECTORS

The directors who served from 4 March 2010, the date the company was lifted from receivership, and to the date of this report were:-

Eng. Abdulrazzaq Adan Ali	- Permanent Secretary, Ministry of Trade - Chairman
Mr. Edwin Kinyua	- Representing Kenya Wine Agencies Limited
Ms. Mbatha Mbithi	- Representing Industrial & Commercial Development Corporation
Mr. Jonathan Ciano	- Chief Executive Officer
Mr. James Kabuga	

7. FINANCIAL STATEMENTS

At the date of this report, the directors were not aware of any circumstances which would have rendered the values attributed to assets and liabilities in the financial statements of the group, misleading.

8. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with the provisions of section 159 (2) of the Kenyan Companies Act.

By Order of the Board



Secretary

10/8/2010.....2010

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and 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 and of the operating results of the group and the company. The directors further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.



.....
Director



.....
Director

10th Aug - 2010

.....
Date

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF
UCHUMI SUPERMARKETS LIMITED

We have audited the accompanying financial statements of Uchumi Supermarkets Limited and its subsidiaries as set out on pages 7 to 46, which comprise the statement of financial position of the group and the company as at 30 June 2010 and the statement comprehensive income of the group and the company, statement of changes in equity of the group and the company, statement of cash flows of the group and the company for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

AUDITORS' RESPONSIBILITY -

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

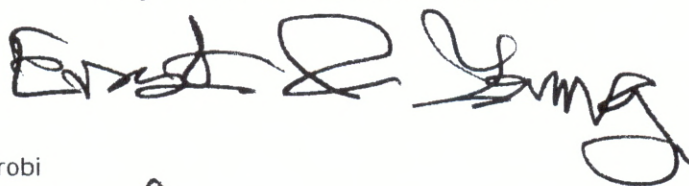
OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the group and of the company as at 30 June 2010 and of the profit and cash flows of the group and the company for the year then ended in accordance with the requirements of International Financial Reporting Standards and the Kenyan Companies Act.

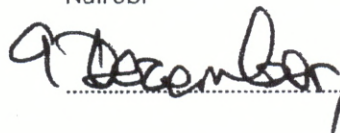
REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act, we report to you, based on our audit that:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account have been kept by the group and the company, so far as appears from our examination of those books;
- iii) The group and the company statements of financial position and income statement are in agreement with the books of account.



Nairobi

 9 December 2010

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(a)	687,428	685,476
Investment properties	4	580,000	450,000
Intangible assets	5	23,666	26,346
Prepaid operating lease rentals	6	20,284	20,555
Deferred tax asset	8.1	<u>648,566</u>	<u>216,659</u>
		<u>1,959,944</u>	<u>1,399,036</u>
CURRENT ASSETS			
Inventories	9	709,390	607,949
Trade and other receivables	10	259,108	268,110
Tax recoverable	8.1	4,101	115
Short term deposits	26	101,696	100,000
Bank and cash balances	26	<u>119,272</u>	<u>113,438</u>
		<u>1,193,567</u>	<u>1,089,612</u>
TOTAL ASSETS		<u>3,153,511</u>	<u>2,488,648</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	900,000	900,000
Reserves	13	<u>638,933</u>	<u>(1,080,495)</u>
		<u>1,538,933</u>	<u>(180,495)</u>
NON-CURRENT LIABILITIES			
Term loans	14	<u>320,140</u>	<u>820,089</u>
CURRENT LIABILITIES			
Trade and other payables	15	1,090,383	1,145,246
Deferred revenue	16	47,780	37,310
Amounts due to related parties	11	14,433	14,094
Debenture loan	14	-	207,437
Term loans	14	132,142	360,000
Bank overdraft	17	<u>9,700</u>	<u>84,967</u>
		<u>1,294,438</u>	<u>1,849,054</u>
TOTAL EQUITY AND LIABILITIES		<u>3,153,511</u>	<u>2,488,648</u>

The financial statements were approved by the Board of Directors on 10 August 2010
and were signed on its behalf by:-

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Directors

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
REVENUE			
Sales	18	9,559,682	8,202,221
Income from redemption of loyalty points	16	<u>49,244</u>	<u>30,622</u>
		9,608,926	8,232,843
COST OF SALES	19	<u>(7,912,857)</u>	<u>(6,750,138)</u>
		1,696,069	1,482,705
CHANGE IN VALUE OF INVESTMENT PROPERTIES	4	130,000	-
OTHER INCOME	20	<u>307,842</u>	<u>266,709</u>
		<u>2,133,911</u>	<u>1,749,414</u>
EXPENSES:-			
Administration and establishment	21	(1,498,717)	(1,303,448)
Selling and distribution	22	<u>(98,444)</u>	<u>(115,560)</u>
		<u>(1,597,161)</u>	<u>(1,419,008)</u>
PROFIT FROM OPERATING ACTIVITIES		536,750	330,406
FINANCE COSTS	23	<u>(103,558)</u>	<u>(160,484)</u>
PROFIT BEFORE TAX	24	433,192	169,922
INCOME TAX CREDIT	8.2	<u>431,907</u>	<u>250,708</u>
PROFIT FOR THE YEAR		<u>865,099</u>	420,630
ATTRIBUTABLE TO:			
Owners of the parent		<u>865,099</u>	<u>420,630</u>
EARNINGS PER SHARE			
Basic and diluted	25	<u>4.81</u>	<u>2.34</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
PROFIT FOR THE YEAR		<u>865,099</u>	<u>420,630</u>
OTHER COMPREHENSIVE INCOME:			
Revaluation of land and buildings		-	79,449
Exchange differences on translation of foreign entity		(5,251)	(4,148)
Income tax effect		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of taxes		<u>(5,221)</u>	<u>75,301</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>859,848</u>	<u>495,931</u>
ATTRIBUTABLE TO:			
Owners of the parent		<u>859,848</u>	<u>495,931</u>

UCHUMI SUPERMARKETS LIMITED
STATEMENT OF FINANCIAL POSITION OF THE COMPANY
AS AT 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(b)	672,556	664,063
Intangible assets	5	23,666	26,346
Prepaid operating lease rentals	6	20,284	20,555
Investment in subsidiaries	7	205,129	60,200
Deferred tax asset	8.1	<u>640,756</u>	<u>216,659</u>
		<u>1,562,391</u>	<u>987,823</u>
CURRENT ASSETS			
Inventories	9	635,443	546,742
Trade and other receivables	10	215,689	218,871
Amounts due from related parties	11	115,679	255,440
Tax recoverable	8.1	115	115
Short term deposits	26	101,696	100,000
Bank and cash balances	26	<u>57,099</u>	<u>61,888</u>
		<u>1,125,721</u>	<u>1,183,056</u>
TOTAL ASSETS		<u>2,688,112</u>	<u>2,170,879</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	12	900,000	900,000
Reserves	13	<u>293,960</u>	<u>(1,284,415)</u>
		<u>1,193,960</u>	<u>(384,415)</u>
NON CURRENT LIABILITIES			
Term loans	14	<u>320,140</u>	<u>820,089</u>
CURRENT LIABILITIES			
Trade and other payables	15	969,957	1,031,397
Deferred revenue	16	47,780	37,310
Amount due to related parties	11	14,433	14,094
Debenture loan	14	-	207,437
Term loans	14	132,142	360,000
Bank overdraft	17	<u>9,700</u>	<u>84,967</u>
		<u>1,174,012</u>	<u>1,735,205</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>2,688,112</u>	<u>2,170,879</u>

The financial statements were approved by the Board of Directors on.....10 August.....2010
and signed on its behalf by:-

.....)

.....)

Directors

UCHUMI SUPERMARKETS LIMITED
INCOME STATEMENT OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2010

		2010 KShs'000	2009 KShs'000
REVENUE	Note		
Sales	18	8,589,301	7,321,314
Income from redemption of loyalty points	16	<u>49,244</u>	<u>30,622</u>
		8,638,545	7,351,936
COST OF SALES	19	<u>(7,137,123)</u>	<u>(6,026,531)</u>
		1,501,422	1,325,405
OTHER INCOME	20	<u>269,978</u>	<u>231,681</u>
		<u>1,771,400</u>	<u>1,557,086</u>
EXPENSES:-			
Administration and establishment	21	(1,290,060)	(1,158,521)
Selling and distribution	22	<u>(83,084)</u>	<u>(102,566)</u>
		<u>(1,373,144)</u>	<u>(1,261,087)</u>
PROFIT FROM OPERATING ACTIVITIES		398,256	295,999
FINANCE COSTS	23	<u>(103,558)</u>	<u>(160,484)</u>
PROFIT BEFORE TAX	24	294,698	135,515
INCOME TAX CREDIT	8.2	<u>424,097</u>	<u>250,708</u>
PROFIT FOR THE YEAR		<u>718,795</u>	<u>386,223</u>
EARNINGS PER SHARE			
Basic and diluted	25	<u>3.99</u>	<u>2.15</u>

UCHUMI SUPERMARKETS LIMITED
 STATEMENT OF COMPREHENSIVE INCOME OF THE COMPANY
 FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
PROFIT FOR THE YEAR		<u>718,795</u>	<u>386,223</u>
OTHER COMPREHENSIVE INCOME:			
Revaluation of land and buildings		-	79,449
Income tax effect		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of taxes		<u>-</u>	<u>79,449</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>718,795</u>	<u>465,672</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Equity pending allotment KShs'000	Translation reserve KShs'000	Accumulated losses KShs'000	Total KShs'000
At 1 July 2008	900,000	662,882	137,352	-	(12,597)	(2,712,768)	(1,025,131)
Prior years accumulated gain on investment properties restating opening balances	-	-	-	-	-	348,705	348,705
Transfer to accumulated losses	-	-	(1,275)	-	-	1,275	-
Total comprehensive income for the year	-	-	79,449	-	(4,148)	420,630	495,931
At 30 June 2009	900,000	662,882	215,526	-	(16,745)	(1,942,158)	(180,495)
At 1 July 2009	900,000	662,882	215,526	859,580	(16,745)	(1,942,158)	(180,495)
Equity pending allotment	-	-	-	859,580	-	-	859,580
Transfer to accumulated losses	-	-	(1,275)	-	-	1,275	-
Total comprehensive income for the year	-	-	-	-	(5,251)	865,099	859,848
At 30 June 2010	900,000	662,882	214,251	859,580	(21,996)	(1,075,784)	1,538,933

UCHUMI SUPERMARKETS LIMITED
STATEMENT OF CHANGES IN EQUITY OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Equity pending allotment KShs'000	Accumulated losses KShs'000	Total KShs'000
At 1 July 2008		900,000	662,882	137,352	-	(2,550,321)	(850,087)
Transfer to accumulated losses		-	-	(1,275)	-	1,275	-
Total comprehensive income for the year		-	-	79,449	-	386,223	465,672
At 30 June 2009		<u>900,000</u>	<u>662,882</u>	<u>215,526</u>	<u>-</u>	<u>(2,162,823)</u>	<u>(384,415)</u>
At 1 July 2009		900,000	662,882	215,526	859,580	(2,162,823)	(384,415)
Equity pending allotment		-	-	-	-	-	859,580
Transfer to accumulated losses		-	-	(1,275)	-	1,275	-
Total comprehensive income for the year		-	-	-	-	718,795	718,795
At 30 June 2010		<u>900,000</u>	<u>662,882</u>	<u>214,251</u>	<u>859,580</u>	<u>(1,442,753)</u>	<u>1,193,960</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		433,192	169,922
Adjustments for:			
Depreciation on property, plant and equipment		57,936	64,014
Change in fair value of investment properties		(130,000)	-
Amortisation of prepaid operating lease rentals		271	271
Amortisation of intangible assets		11,258	2,778
Reversal of impairment on Kasarani Mall Limited		-	(200)
Profit on sale of property, plant and equipment		<u>(499)</u>	<u>(1,421)</u>
Operating profit before working capital changes		372,158	235,364
Trade and other receivables		9,002	(141,490)
Due to related parties		339	6,132
Inventories		(101,441)	14,535
Trade and other payables		(54,863)	279,124
Deferred revenue		<u>10,470</u>	<u>18,738</u>
Net cash flows from operations		235,665	412,403
Income tax paid		<u>(3,986)</u>	<u>-</u>
Net cash generated from operating activities		<u>231,679</u>	<u>412,403</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(59,888)	(27,421)
Proceeds from disposal of plant and equipment		499	336
Purchase of intangible assets		<u>(8,578)</u>	<u>(29,124)</u>
Net cash used in investing activities		<u>(67,967)</u>	<u>(56,209)</u>
FINANCING ACTIVITIES			
Repayments and conversion of long term borrowing into equity pending allotment		(935,244)	(340,000)
Conversion of debts into equity pending allotment		<u>859,580</u>	<u>-</u>
Net cash used in financing activities		<u>(75,664)</u>	<u>(340,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		88,048	16,194
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		128,471	116,425
Effects of exchange rate movements on cash and cash equivalents		<u>(5,251)</u>	<u>(4,148)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	<u>211,268</u>	<u>128,471</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
STATEMENT OF CASH FLOWS OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		294,698	135,515
Adjustments for:			
Depreciation on property, plant and equipment		50,707	56,910
Amortisation of prepaid operating lease rentals		271	271
Reversal of impairment on investment in subsidiary companies		-	(200)
Profit on disposal of property, plant and equipment		(499)	(1,421)
Amortisation of intangible assets		<u>11,258</u>	<u>2,778</u>
Operating profit before working capital changes		356,435	193,853
Trade and other receivables		3,182	(95,211)
Related parties balances		140,100	613
Inventories		(88,701)	14,459
Trade and other payables		(61,440)	292,177
Deferred revenue		<u>10,470</u>	<u>18,738</u>
Net cash generated from operating activities		<u>360,046</u>	<u>424,629</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(59,200)	(26,386)
Proceeds from disposal of property and equipment		499	1,421
Purchase of intangible assets		(8,578)	(29,124)
Increase in investment in subsidiary company		<u>(144,929)</u>	<u>-</u>
Net cash used in investing activities		<u>(212,208)</u>	<u>(54,089)</u>
FINANCING ACTIVITIES			
Repayments and conversion of long term borrowing into equity pending allotment		(935,244)	(340,000)
Conversion of debts into equity pending allotment		<u>859,580</u>	<u>-</u>
Net cash used in financing activities		<u>(75,664)</u>	<u>(340,000)</u>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		72,174	30,540
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>76,921</u>	<u>46,381</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	<u>149,095</u>	<u>76,921</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

1. GENERAL INFORMATION

Uchumi Supermarkets Limited is incorporated in Kenya under the Kenyan Companies Act. The company operates retail supermarkets in Kenya and Uganda.

The company's shares are currently suspended from the Nairobi Stock Exchange listing after it was placed under receivership on 2 June 2006. However, following the uplifting of receivership by the debenture holders on 4 March 2010, the company has applied to the Capital Markets Authority for approval to have the company shares commence trading at the Nairobi Stock Exchange.

2. ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for land and buildings, investment properties and certain financial assets and financial liabilities that have been measured at fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Kenya Shillings (KShs.) and all values are rounded to the nearest thousand (KShs'000) except where otherwise indicated.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

c) Consolidation of financial statements

Subsidiaries are all entities over which the company 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 control ceases.

The consolidated financial statements of the group comprise the financial statements of the company and its subsidiaries at the end of the reporting period.

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.

The accounting policies for the subsidiaries are consistent with the policies adopted by the company.

d) Critical accounting estimates, judgements and assumptions

In the process of applying the company's accounting policies, the directors make certain estimates, judgements and assumptions about future events. In practice, the estimated and assumed results would differ from the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

d) Critical accounting estimates, judgements and assumptions (Continued)

Property, plant and equipment

The directors makes estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy for property, plant and equipment. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Impairment of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Allowances for obsolete inventories

The directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, the directors make judgement as to whether the inventory item can be used as an input in production or is in saleable condition.

Allowances for credit losses

The company reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

e) New accounting standards, amendments and interpretations

The Group has adopted the following new standards, amendments and interpretations as at 1 July 2009.

- IFRS 1 First-time Adoption of International Financial Reporting Standards - effective for periods beginning on or after 1 July 2009. The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that: is transparent for users and comparable over all periods presented; provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRSs); and can be generated at a cost that does not exceed the benefits. The adoption of these standards had no material impact on the financial position or the performance of the group.
- IFRS 2 Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective from 1 January 2009). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This amendment had no material impact on the financial position or performance of the group.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

- IFRS 3 (Revised), Business Combinations and IAS 27 (Revised), Consolidated and Separate Financial Statements (effective 1 July 2009). The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. This standard introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 revised requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7, Statement of Cash Flows, IAS 12, Income Taxes, IAS 21, The Effects of Changes in Foreign Exchange Rates, IAS 28, Investment in Associates and IAS 31, Interests in Joint Ventures. The changes by IFRS 3 revised and IAS 27 revised will affect future acquisitions or loss of control and transactions with minority interests. The adoption of these standards had no material impact on the financial position or the performance of the group.
- IFRS 7 Financial Instruments: Disclosures. The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale.

The group has concluded that the fair value of financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions.

- IFRS 8 Operating Segments. This standard requires disclosure of information about the company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the company. IFRS 8 replaces IAS 14, Segment Reporting, upon effective date. The group concluded that the operating segments determined in accordance with IFRS 8 are the same as the geographical segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 28.
- IAS 1 (Revised 2007), Presentation of Financial Statements. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The group has chosen to present two statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

- IAS 23 Borrowing Costs (effective from 1 January 2009) - The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. During the year, there were no borrowings for the acquisition of capital assets.
- IAS 27 Consolidated and Separate Financial Statements - Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate - These amendments to IAS 27 are effective for periods beginning on or after 1 January 2009. The deletion of the 'cost method' making the distinction between pre- and post- acquisition profits is no longer required. All dividends will be required in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. In cases of reorganization where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amounts of its share of equity items in the subsidiary rather than its fair value. The adoption of this standard had no material impact on the financial position or the performance of the group.
- IAS 27 Consolidated and Separate Financial Statements (Amendment) - effective for periods beginning on or after 1 July 2009. Changes in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to gain or loss. Losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests') even if the losses exceed the non-controlling equity investment in the subsidiary.
- IAS 32 Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation - These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The adoption of this standard had no material impact on the financial position or the performance of the group.
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As per the management assessment, the amendment has no impact on the financial position or performance of the group as the group has not entered into such edges.
- IFRIC 15 Agreement for the Construction of Real Estate. IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This standard has no effect on the group's financial statements.

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This standard has no material impact on the Group's financial statements.
- IFRIC 17 Distribution of Non-Cash Assets to Owners-effective for periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This standard has no effect on the group's financial statements.
- IFRIC 18 Transfers of Assets from Customers effective for periods beginning on or after 1 July 2009. This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This standard has no effect on the group's financial statements.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the group's chief operating decision maker does review segment assets and liabilities, the group has continued to disclose this information in Note 28.
- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

Improvements to IFRSs (Continued)

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The group has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The group amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 Revenue: IASB has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - Has primary responsibility for providing the goods or service
 - Has inventory risk
 - Has discretion in establishing prices
 - Bears the credit risk
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the group as the government assistance received are not at low interest.
- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The group has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the group as the annual impairment test is performed before aggregation.

- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the group either has the right to access the goods or has received the service. This amendment has no impact on the group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

Improvements to IFRSs (Continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 2 Share-based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 17 Leases
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 29 Reporting in Hyperinflationary Economies
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Properties
- IAS 41 Agriculture
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 July 2009. The group expects that adoption of these standards, amendments and interpretations is expected not to have any significant impact on the group's financial statements in the period of initial application but additional disclosures will be required.

- IFRS 1 First-time Adoption of International Financial Reporting Standards- Additional Exemptions for First-time Adopters (Amendments) effective for annual periods beginning on or after 1 January 2010. The standard has been amended to provide additional exemptions from full retrospective application for the measurement of oil and gas assets and leases. This amendment is not expected to have any impact on the financial statements.
- IFRS 1 First-time Adoption of International Financial Reporting Standards- Limited Exemptions from Comparative IFRS & Disclosures for First-Time Adopters, effective for annual periods beginning on or after 1 July 2010. The standard has been amended to allow first-time adopters to utilize the transitional provisions in IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. This amendment is not expected to have any impact on the financial statements.
- IFRS 2 Share-based Payment (Revised): The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions and is effective for the periods beginning on or after 1 January 2010. This amendment is not expected to have any material impact on the financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

e) New accounting standards, amendments and interpretations (Continued)

- IAS 32 Financial Instruments: Presentation- Classification of Rights Issues (Amendment). Effective for annual periods beginning on or after 1 February 2010. The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if: the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments; they are used to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in respect of changes in accounting policy. The adoption of this standard is not expected to have material impacts on the entity's financial statements.
- IFRS 9 Financial Instruments -The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. An entity shall apply this IFRS to all assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement.
- IAS 24 Related Party Disclosure (Revised): The revised Standard was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 January 2011. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. This Standard shall be applied in: (a) identifying related party relationships and transactions; (b) identifying outstanding balances, including commitments, between an entity and its related parties; (c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and determining the disclosures to be made about those items. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement: This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment is not expected to have material impact on the financial statements.
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)- The amendment is effective for annual periods beginning on or after 1 January 2011. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of minimum funding requirement as an asset. The entity is applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation. The adoption of this amendment is not expected to have material impact on the financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

f) Revenue recognition

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

Sales of services are recognised in the period in which the services are rendered, by reference to the 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.

g) Customer loyalty program

The group estimates the fair value of points earned under the loyalty points programme by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates. As points issued under the programme do not expire, such estimates are subject to significant uncertainty.

Award credits are accounted for as a separate identifiable component of sales. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and other components of the sale.

h) 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.

i) 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 are 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 income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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	Shorter of estimated useful life or the lease term
Improvements to premises	10%
Plant and machinery	20%
Equipment and motor vehicles	15%, 20% and 25% (as applicable)

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

i) Property, plant and equipment (Continued)

The assets residual values, useful lives and the methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of equipment and motor vehicles is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement.

Items of tangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

j) Foreign currencies

The consolidated financial statements are presented in Kenya Shillings, which is the company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Assets and liabilities in foreign currencies have been translated at rates approximating the mean rates of exchange ruling at the balance sheet date. Transactions during the period are converted at the rates ruling at the dates of the transactions. Gains and losses on conversion and translation are either included in the income statement or, where appropriate, recharged to the relevant third party.

As at the reporting date, the assets and liabilities of Uchumi Supermarkets Uganda Limited are translated into Kenya Shillings at the rate of exchange ruling at the balance sheet date, and the income statement is translated at the weighted average exchange rates for the period. Exchange differences arising on translation are taken directly to a separate component of equity.

k) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents that have a fixed maturity date (less than 3 months) are subsequently measured at cost, as these are highly liquid and readily convertible.

Cash and cash equivalents that do not have fixed maturity dates are subsequently measured at amortised cost using the effective interest rate method.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Bank overdrafts are disclosed separately under current liabilities.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

l) Trade and other payables

Trade and other payables are carried at amortised cost using the effective interest rate method. Trade payables being short term in nature are carried at cost as the effect of imputing interest is considered to be insignificant.

m) Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

n) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

o) Tax

Current corporate tax

Current corporate tax is provided on the basis of the results for the year as shown in the financial income statement, adjusted in accordance with the tax legislations and at the tax rate, enacted or substantively enacted at the balance sheet date. Corporate tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts 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, it is not accounted for.

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

Deferred income tax assets and liabilities is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the asset is realised or the liability is settled.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

o) Tax (Continued)

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or payables in the balance sheet.

p) Employee benefit cost

Retirement benefit plans

The company contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs.200 per employee per month.

The company's contributions to the above scheme are charged to the income statement in the year to which they relate.

Employee entitlements

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

q) Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

r) Borrowing costs

Borrowing costs are recognised as an expense when incurred and measured using the effective interest rate method.

s) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events and it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

t) Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

t) Leases (continued)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that the operating lease is accounted for as if it were a finance lease and the lessee uses the fair value model for the asset recognised.

u) Intangible assets and amortization

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

v) Cost of sales

Cost of sales includes the historical costs of inventory expensed during the year including inventory losses.

w) 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 management, there has been impairment in the value of an investment, the loss is recognized as an expense in the period in which the impairment is identified.

x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

y) Segmental reporting

The group presents segmental information using geographical segments format. This is based on the internal financial reporting systems and reflects the risks and earnings structure of the group.

The group operations are carried out in Kenya and Uganda.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. ACCOUNTING POLICIES (Continued)

z) Investment properties

Investment properties are measured initially at cost, including transaction costs, and excluding the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model to recognise the asset. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

3. (a) PROPERTY, PLANT AND EQUIPMENT
(GROUP)

At 30 June 2010:

COST OR VALUATION

At 1 July 2009

Additions

Disposals

Exchange differences

At 30 June 2010

Comprising:

Cost

Valuation

DEPRECIATION

At 1 July 2009

Charge for the year

Disposals

Exchange differences

At 30 June 2010

NET BOOK VALUE

At 30 June 2010

	Buildings and freehold land KShs '000	Improvements to premises KShs' 000	Plant and machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
At 1 July 2009	581,882	260,892	329,977	592,727	1,765,478
Additions	-	3,941	16,676	39,271	59,888
Disposals	-	-	-	(1,000)	(1,000)
Exchange differences	-	(1,722)	(1,901)	(894)	(4,517)
At 30 June 2010	581,882	263,111	344,752	630,104	1,819,849
Comprising:					
Cost	6,882	263,111	344,752	630,104	1,244,849
Valuation	575,000	-	-	-	575,000
At 30 June 2010	581,882	263,111	344,752	630,104	1,819,849
DEPRECIATION					
At 1 July 2009	14,283	168,867	319,877	576,975	1,080,002
Charge for the year	9,222	26,323	5,276	17,115	57,936
Disposals	-	-	-	(1,000)	(1,000)
Exchange differences	-	(1,379)	(1,957)	(1,181)	(4,517)
At 30 June 2010	23,505	193,811	323,196	591,909	1,132,421
NET BOOK VALUE					
At 30 June 2010	588,377	69,300	21,556	38,195	687,428

In the opinion of the directors, there was no impairment in items in property, plant and equipment.

Buildings and freehold land were valued in April 2008 by Lloyd Masika Limited, independent professional valuers. Valuations were made on the basis of open market value. The opening book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to revaluation surplus in equity.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

3. (a) PROPERTY, PLANT AND EQUIPMENT (Continued)
(GROUP)

	Buildings and freehold land KShs' 000	Improvements to premises KShs' 000	Plant and machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
At 30 June 2009:					
COST OR VALUATION					
At 1 July 2008	515,009	258,719	326,420	580,152	1,680,300
Revaluations	66,873	-	-	-	66,873
Additions	-	4,975	5,742	16,704	27,421
Disposals	-	-	-	(4,671)	(4,671)
Exchange differences	-	(2,802)	(2,185)	542	(4,445)
At 30 June 2009	<u>581,882</u>	<u>260,892</u>	<u>329,977</u>	<u>592,727</u>	<u>1,765,478</u>
Comprising:					
Cost	6,882	260,892	329,977	592,727	1,190,478
Valuation	<u>575,000</u>	-	-	-	<u>575,000</u>
	<u>581,882</u>	<u>260,892</u>	<u>329,977</u>	<u>592,727</u>	<u>1,765,478</u>
DEPRECIATION					
At 1 July 2008	51,720	144,155	315,933	561,206	1,073,014
Transfer on revaluation	(46,625)	-	-	-	(46,625)
Charge for the year	9,188	26,170	6,601	22,055	64,014
Disposals	-	-	-	(4,671)	(4,671)
Exchange differences	-	(1,458)	(2,657)	(1,615)	(5,730)
At 30 June 2009	<u>14,283</u>	<u>168,867</u>	<u>319,877</u>	<u>576,975</u>	<u>1,080,002</u>
NET BOOK VALUE					
At 30 June 2009	<u>567,599</u>	<u>92,025</u>	<u>10,100</u>	<u>15,752</u>	<u>685,476</u>

In the opinion of the directors, there was no impairment in items in property, plant and equipment.

Buildings and freehold land were valued in April 2008 by Lloyd Masika Limited, independent professional valuers. Valuations were made on the basis of open market value. The opening book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to revaluation surplus in equity.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

3. (b) PROPERTY, PLANT AND EQUIPMENT
(COMPANY)

At 30 June 2010:	Buildings and freehold land KShs' 000	Improvements to premises KShs' 000	Plant and machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
COST OR VALUATION					
At 1 July 2009	581,882	221,586	282,734	562,878	1,649,080
Additions	-	3,941	16,089	39,170	59,200
Disposals	-	-	-	(1,000)	(1,000)
At 30 June 2010	<u>581,882</u>	<u>225,527</u>	<u>298,823</u>	<u>601,048</u>	<u>1,707,280</u>
Comprising:					
Cost	6,882	225,527	298,823	601,048	1,132,280
Valuation	<u>575,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>575,000</u>
	<u>581,882</u>	<u>225,527</u>	<u>298,823</u>	<u>601,048</u>	<u>1,707,280</u>
DEPRECIATION					
At 1 July 2009	14,283	141,526	277,494	551,714	985,017
Charge for the year	9,222	22,321	2,841	16,323	50,707
Disposals	-	-	-	(1,000)	(1,000)
At 30 June 2010	<u>23,505</u>	<u>163,847</u>	<u>280,335</u>	<u>567,037</u>	<u>1,034,724</u>
NET BOOK VALUE					
At 30 June 2010	<u>558,377</u>	<u>61,680</u>	<u>18,488</u>	<u>34,011</u>	<u>672,556</u>

In the opinion of the directors, there was no impairment in items in property, plant and equipment.

Buildings and freehold land were valued in April 2008 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.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

3. (b) PROPERTY, PLANT AND EQUIPMENT (Continued)
(COMPANY)

At 30 June 2009:	Buildings and freehold land KShs '000	Improvements to premises KShs' 000	Plant and machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
COST OR VALUATION					
At 1 July 2008	515,009	216,611	277,208	551,664	1,560,492
Revaluations	66,873	-	-	-	66,873
Additions	-	4,975	5,526	15,885	26,386
Disposals	-	-	-	(4,671)	(4,671)
At 30 June 2009	<u>581,882</u>	<u>221,586</u>	<u>282,734</u>	<u>562,878</u>	<u>1,649,080</u>
Comprising:					
Cost	6,882	221,586	282,734	562,878	1,074,080
Valuation	<u>575,000</u>	-	-	-	<u>575,000</u>
	<u>581,882</u>	<u>221,586</u>	<u>282,734</u>	<u>562,878</u>	<u>1,649,080</u>
DEPRECIATION					
At 1 July 2008	51,720	119,324	273,122	535,237	979,403
Charge for the year	9,188	22,202	4,372	21,148	56,910
Transfer on revaluation	(46,625)	-	-	-	(46,625)
Disposals	-	-	-	(4,671)	(4,671)
At 30 June 2009	<u>14,283</u>	<u>141,526</u>	<u>277,494</u>	<u>551,714</u>	<u>985,017</u>
NET BOOK VALUE					
At 30 June 2009	<u>567,599</u>	<u>80,060</u>	<u>5,240</u>	<u>11,164</u>	<u>664,063</u>

In the opinion of the directors, there was no impairment in items in property, plant and equipment.

Buildings and freehold land were valued in April 2008 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.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

4. INVESTMENT PROPERTIES	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
At 1 July	450,000	450,000	-	-
Changes in fair value during the year	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June	<u>580,000</u>	<u>450,000</u>	<u>-</u>	<u>-</u>

Investment properties relate to two pieces of land held by the company's subsidiary, Kasarani Mall Limited, under long-term lease arrangements. The land was valued at KShs.580 million by Kiragu & Mwangi Limited, accredited independent valuers, as at 30 June 2010. The present value of the ground rent obligations is immaterial and thus, the valuation amount of KShs.580 million is equivalent to the fair values of these properties. In the opinion of the directors, the carrying values reflect the fair value as at 30 June 2010 after taking into account the actual market state and circumstances as of the statement of financial position date.

5. INTANGIBLE ASSETS	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
COST				
At 1 July	29,124	-	29,124	-
Additions	<u>8,578</u>	<u>29,124</u>	<u>8,578</u>	<u>29,124</u>
At 30 June	<u>37,702</u>	<u>29,124</u>	<u>37,702</u>	<u>29,124</u>
AMORTISATION				
At 1 July	2,778	-	2,778	-
Amortisation for the year	<u>11,258</u>	<u>2,778</u>	<u>11,258</u>	<u>2,778</u>
At 30 June	<u>14,036</u>	<u>2,778</u>	<u>14,036</u>	<u>2,778</u>
NET BOOK VALUE				
At 30 June	<u>23,666</u>	<u>26,346</u>	<u>23,666</u>	<u>26,346</u>

Intangible asset relate to the computer software acquisition costs.

6. PREPAID OPERATING LEASE RENTALS				
Balance brought forward	20,555	20,826	20,555	20,826
Amortisation charge for the year	<u>(271)</u>	<u>(271)</u>	<u>(271)</u>	<u>(271)</u>
At 30 June	<u>20,284</u>	<u>20,555</u>	<u>20,284</u>	<u>20,555</u>

7. INVESTMENTS IN SUBSIDIARIES	Country of incorporation	Shareholding	2010 KShs'000	2009 KShs'000
Uchumi Supermarkets (Uganda) Limited	Uganda	100%	204,929	60,000
Kasarani Mall Limited	Kenya	100%	<u>200</u>	<u>200</u>
			<u>205,129</u>	<u>60,200</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

7. INVESTMENTS IN SUBSIDIARIES (Continued)

The principal activity of Uchumi Supermarkets (Uganda) Limited and Kasarani Mall Limited is operation of retail supermarkets and property management, respectively.

The results of Uchumi Supermarkets (Uganda) Limited and Kasarani Mall Limited have been consolidated in these 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 at nominal amounts. Uchumi Supermarkets (Tanzania) Limited is expected to commence operations by 31 August 2010.

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
8. TAXES				
8.1 STATEMENT OF FINANCIAL POSITION				
INCOME TAX RECOVERABLE				
At 1 July	115	115	115	115
Tax paid during the year	<u>3,986</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June	<u>4,101</u>	<u>115</u>	<u>115</u>	<u>115</u>
DEFERRED TAX ASSET				
Deferred tax asset is attributable to the following items:				
Tax losses carried forward	576,155	189,600	571,901	189,600
Excess of depreciation over tax allowances	53,371	40,875	52,579	40,875
Other temporary differences	<u>19,040</u>	<u>20,233</u>	<u>16,276</u>	<u>20,233</u>
	648,566	250,708	640,756	250,708
Revaluation surplus transferred to equity	<u>-</u>	<u>(34,049)</u>	<u>-</u>	<u>(34,049)</u>
	<u>648,566</u>	<u>216,659</u>	<u>640,756</u>	<u>216,659</u>
8.2 INCOME STATEMENT				
Deferred tax credit	431,907	250,708	424,097	250,708
Corporation tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax credit	<u>431,907</u>	<u>250,708</u>	<u>424,097</u>	<u>250,708</u>

There is no corporation tax charge due to accumulated tax losses brought forward.

9. INVENTORIES	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Food	296,157	253,615	265,427	226,501
Non-food	185,851	159,334	168,730	142,750
Other	<u>253,707</u>	<u>244,237</u>	<u>221,945</u>	<u>221,553</u>
	735,715	657,186	656,102	590,804
Provisions for obsolescence	<u>(26,325)</u>	<u>(49,237)</u>	<u>(20,659)</u>	<u>(44,062)</u>
	<u>709,390</u>	<u>607,949</u>	<u>635,443</u>	<u>546,742</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	47,792	38,725	36,941	23,131
Prepayments and other receivables	<u>211,316</u>	<u>229,385</u>	<u>178,748</u>	<u>195,740</u>
	<u>259,108</u>	<u>268,110</u>	<u>215,689</u>	<u>218,871</u>
Aging analysis of trade receivables:				
Neither past due nor impaired	32,815	23,908	26,323	12,194
Past due but not impaired: 30 to 60 days	14,977	14,817	10,618	10,937
Impaired: Over 60 days	<u>20,695</u>	<u>22,932</u>	<u>17,149</u>	<u>20,879</u>
	68,487	61,657	54,090	44,010
Allowance for credit losses	<u>(20,695)</u>	<u>(22,932)</u>	<u>(17,149)</u>	<u>(20,879)</u>
	<u>47,792</u>	<u>38,725</u>	<u>36,941</u>	<u>23,131</u>
Movement in allowance for credit losses:				
At 1 July	22,932	20,786	20,879	20,174
Income statement movement (note 20 and 21)	<u>(2,237)</u>	<u>2,146</u>	<u>(3,730)</u>	<u>705</u>
At 30 June	<u>20,695</u>	<u>22,932</u>	<u>17,149</u>	<u>20,879</u>

The above trade receivables have no collateral, are non - interest bearing and are generally on 30-60 days term. All trade receivables above 60 days are deemed past due and are assessed as impaired. There were no trade receivables written off during the year.

11. RELATED PARTY TRANSACTIONS

The group is related to various other entities through common shareholding and /or directorships. The following balances relating to transactions entered into with related parties arising from sale and purchase of goods/ services were outstanding at year end:

	Company	
	2009	2008
	KShs'000	KShs'000
i) Amounts due from related parties:		
Uchumi Supermarkets (Uganda) Limited	5,168	144,929
Kasarani Mall Limited	<u>110,511</u>	<u>110,511</u>
	<u>115,679</u>	<u>255,440</u>
During the year, the Board of Uchumi Supermarkets (Kenya) Limited approved the conversion of KShs.144,929,000 due from Uchumi Supermakets (Uganda) Limited to equity.		
ii) Amounts due to related parties:		
Industrial and Commercial Development Corporation (ICDC)	-	1,869
Kenya Wine Agencies Limited	<u>14,433</u>	<u>12,225</u>
	<u>14,433</u>	<u>14,094</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

11. RELATED PARTY TRANSACTIONS (Continued)

iii) Senior management compensation:	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Short term employee benefits	36,162	37,112	31,981	33,052
Post employment benefits	<u>2,381</u>	<u>1,932</u>	<u>2,374</u>	<u>1,927</u>
	<u>38,543</u>	<u>39,044</u>	<u>34,355</u>	<u>34,979</u>

During the year, Kenya Wine Agencies Limited traded with the company in the normal course of business. In addition, the company charged Uchumi Supermarkets (Uganda) Limited for salaries of staff seconded to the subsidiary. During the year, the company did not transact with Kasarani Mall Limited and ICDC.

12. SHARE CAPITAL	2010 KShs'000	2009 KShs'000
Authorised:		
300,000,000 ordinary shares of KShs.5 each	1,500,000	1,500,000
25,000,000 preference shares of KShs.20 each	<u>500,000</u>	<u>500,000</u>
	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
180,000,000 ordinary shares of Shs.5 each	<u>900,000</u>	<u>900,000</u>

13. RESERVES	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Accumulated losses	(1,075,784)	(1,942,158)	(1,442,753)	(2,162,823)
Share premium	662,882	662,882	662,882	662,882
Revaluation reserve	214,251	215,526	214,251	215,526
Translation reserve	(21,996)	(16,745)	-	-
Equity pending allotment	<u>859,580</u>	<u>-</u>	<u>859,580</u>	<u>-</u>
	<u>638,933</u>	<u>(1,080,495)</u>	<u>293,960</u>	<u>(1,284,415)</u>

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

The translation reserve arises from translation of the net investment in Uchumi Supermarkets (Uganda) Limited.

Equity pending allotment represents proceeds from conversion of debenture and term loans as approved by shareholders during the Annual General Meeting held on 29 January 2010. The proceeds will be capitalised once approval has been obtained from the Capital Markets Authority.

14. LOANS	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Borrowings are made up as follows:				
a) Non-current				
Term loan	<u>320,140</u>	<u>820,089</u>	<u>320,140</u>	<u>820,089</u>

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

14. LOANS (Continued)	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
b) Current				
Bank overdraft	9,700	84,967	9,700	84,967
Debenture loan	-	207,437	-	207,437
Term loan	<u>132,142</u>	<u>360,000</u>	<u>132,142</u>	<u>360,000</u>
	<u>141,842</u>	<u>652,404</u>	<u>141,842</u>	<u>652,404</u>
	<u>461,982</u>	<u>1,472,493</u>	<u>461,982</u>	<u>1,472,493</u>
Maturity profile of non-current borrowings				
Between 1 and 2 years	95,605	360,000	95,605	360,000
Between 2 and 5 years	224,535	61,929	224,535	61,929
Over 5 years	-	<u>398,160</u>	-	<u>398,160</u>
	<u>320,140</u>	<u>820,089</u>	<u>320,140</u>	<u>820,089</u>
Term Loan				
Non-current				
Eastern and Southern African Trade and Development Bank	-	20,715	-	20,715
Centum Investment Company Limited	40,000	40,000	40,000	40,000
Kenya Commercial Bank Limited	-	84,374	-	84,374
Government of Kenya	<u>280,140</u>	<u>675,000</u>	<u>280,140</u>	<u>675,000</u>
	<u>320,140</u>	<u>820,089</u>	<u>320,140</u>	<u>820,089</u>
Current				
Eastern and Southern African Trade and Development Bank	27,463	180,000	27,463	180,000
Kenya Commercial Bank Limited	17,547	180,000	17,547	180,000
Government of Kenya	<u>87,132</u>	-	<u>87,132</u>	-
	<u>132,142</u>	<u>360,000</u>	<u>132,142</u>	<u>360,000</u>

The debenture loans previously had a maturity date of 23 August 2007. However, during the Annual General Meeting held on 29 January 2010, the shareholders passed a resolution to convert them into equity.

The loan from the Government of Kenya was restructured in December 2009 with KShs.350 million being converted into equity and the balance to be repaid up to December 2014.

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 weighted average effective interest rate at year-end was:

	2010	2009
Term loan	9.94%	11.67%
Bank overdrafts	12.14%	9.56%

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FOR THE YEAR ENDED 30 JUNE 2010

14. LOANS (Continued)

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 management expect would be available to the group at the statement of financial position date.

15. TRADE AND OTHER PAYABLES	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Trade payables	930,831	881,015	831,107	770,383
Accrued expenses	115,169	92,824	106,388	89,607
Other payables	<u>44,383</u>	<u>171,407</u>	<u>32,462</u>	<u>171,407</u>
	<u>1,090,383</u>	<u>1,145,246</u>	<u>969,957</u>	<u>1,031,397</u>

Trade payables are non-interest bearing and are normally settled within 60 days.

16. DEFERRED REVENUE

At 1 July	37,310	18,572	37,310	18,572
Deferred during the year	59,714	49,360	59,714	49,360
Released to the income statement	<u>(49,244)</u>	<u>(30,622)</u>	<u>(49,244)</u>	<u>(30,622)</u>
At 30 June	<u>47,780</u>	<u>37,310</u>	<u>47,780</u>	<u>37,310</u>

Deferred revenue represents fair value of the consideration received from customer's loyalty points (note 2(g)).

17. BANK OVERDRAFT

The bank overdraft is secured by a debenture with a first legal charge over the entire assets of the company and with a floating charge over inventory and debtors.

18. SALES	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Food	6,074,602	5,429,652	5,600,923	4,846,515
Personal care	1,982,226	1,581,085	1,698,157	1,411,279
General merchandise	1,355,266	1,100,653	1,186,701	982,444
Textiles	<u>147,588</u>	<u>90,831</u>	<u>103,520</u>	<u>81,076</u>
	<u>9,559,682</u>	<u>8,202,221</u>	<u>8,589,301</u>	<u>7,321,314</u>

19. COST OF SALES

Food	5,041,981	4,481,083	4,647,419	4,001,314
Personal care	1,631,604	1,312,395	1,423,571	1,171,362
General merchandise	1,083,528	872,964	945,252	779,153
Textiles	<u>155,744</u>	<u>83,696</u>	<u>120,881</u>	<u>74,702</u>
	<u>7,912,857</u>	<u>6,750,138</u>	<u>7,137,123</u>	<u>6,026,531</u>

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20. OTHER INCOME	Group		Company	
	2010 KShs'000	2009 KShs'000	2010 KShs'000	2009 KShs'000
Promotions income	43,269	74,125	43,269	49,395
Profit on disposal of property, plant and equipment	499	1,421	499	1,421
Speciality shop income	186,328	130,257	157,956	130,257
Decrease in allowance for credit losses	2,237	-	3,730	-
Miscellaneous income	<u>75,509</u>	<u>60,906</u>	<u>64,524</u>	<u>50,608</u>
	<u>307,842</u>	<u>266,709</u>	<u>269,978</u>	<u>231,681</u>
21. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs (Note 27)	458,361	364,058	414,943	333,965
Establishment costs	525,779	495,972	452,537	420,314
Computer expenses	21,293	19,934	20,172	19,249
Motor running expenses	22,384	16,727	22,384	16,727
Auditors' remuneration	7,616	7,097	5,500	5,000
Consultancy fees	28,999	19,242	22,705	18,905
Credit card commission	27,819	23,305	27,819	23,305
Bank charges and commission	27,783	13,045	26,943	12,764
Amortisation of intangible assets	11,258	2,778	11,258	2,778
Amortisation of operating lease rentals	271	271	271	271
Depreciation of property and equipment	57,936	64,014	50,707	56,910
Increase in allowance for credit losses	-	2,146	-	705
General expenses	<u>309,218</u>	<u>274,859</u>	<u>234,821</u>	<u>247,628</u>
	<u>1,498,717</u>	<u>1,303,448</u>	<u>1,290,060</u>	<u>1,158,521</u>
22. SELLING AND DISTRIBUTION				
Marketing expenses	<u>98,444</u>	<u>115,560</u>	<u>83,084</u>	<u>102,566</u>
23. FINANCE COSTS				
Interest - bank overdraft	672	12,278	672	12,278
Interest - unsecured loans	56,398	66,882	56,398	66,882
Interest - secured loans	27,999	60,853	27,999	60,853
Interest - debenture	<u>18,489</u>	<u>20,471</u>	<u>18,489</u>	<u>20,471</u>
	<u>103,558</u>	<u>160,484</u>	<u>103,558</u>	<u>160,484</u>
24. PROFIT BEFORE TAX				
The profit before tax is stated after charging:-				
Depreciation of property, plant and equipment	57,936	64,014	50,708	56,910
Amortisation of intangible assets	11,258	2,778	11,258	2,778
Amortisation of operating lease rentals	271	271	271	271
Auditors' remuneration	7,616	7,097	5,500	5,000
Staff costs:				
Salaries and wages	455,507	361,974	412,569	332,053
Pension costs	<u>2,854</u>	<u>2,084</u>	<u>2,374</u>	<u>1,912</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

25. EARNINGS PER SHARE

The earnings per share is calculated on the profit after tax and on the number of ordinary shares in issue during the year, as follows:-

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year	<u>865,099</u>	<u>420,630</u>	<u>718,795</u>	<u>386,223</u>
Number of ordinary shares	<u>180,000</u>	<u>180,000</u>	<u>180,000</u>	<u>180,000</u>
Profit per share	<u>4.81</u>	<u>2.34</u>	<u>3.99</u>	<u>2.15</u>

26. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise of the following at 30 June:

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Bank and cash balances	119,272	113,438	57,099	61,888
Short term deposits	101,696	100,000	101,696	100,000
Bank overdraft	<u>(9,700)</u>	<u>(84,967)</u>	<u>(9,700)</u>	<u>(84,967)</u>
	<u>211,268</u>	<u>128,471</u>	<u>149,095</u>	<u>76,921</u>

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the group, and earn interest at a rate of 7% (2009:7%)

27. EMPLOYEE BENEFITS

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Salaries	411,703	333,939	370,844	306,336
Medical	19,147	10,199	17,068	9,356
Pension	2,854	2,084	2,374	1,912
Other	<u>24,657</u>	<u>17,836</u>	<u>24,657</u>	<u>16,361</u>
	<u>458,361</u>	<u>364,058</u>	<u>414,943</u>	<u>333,965</u>

28. SEGMENT INFORMATION

	Kenya KShs '000	Uganda KShs '000	Group KShs '000
Year ended 30 June 2010:			
Sales	8,589,301	970,381	9,559,682
Profit before tax	<u>424,698</u>	<u>8,494</u>	<u>433,192</u>
Current assets	1,015,214	178,353	1,193,567
Non-current assets	<u>1,937,258</u>	<u>22,686</u>	<u>1,959,944</u>
Total segment assets	<u>2,952,472</u>	<u>201,039</u>	<u>3,153,511</u>
Current liabilities	1,174,006	120,432	1,294,438
Non current liabilities	<u>320,140</u>	<u>-</u>	<u>320,140</u>
Total segment liabilities	<u>1,494,146</u>	<u>120,432</u>	<u>1,614,578</u>

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FOR THE YEAR ENDED 30 JUNE 2010

28. SEGMENT INFORMATION (Continued)	Kenya KShs '000	Uganda KShs '000	Group KShs '000
<i>Year ended 30 June 2009:</i>			
Sales	<u>7,321,314</u>	<u>880,907</u>	<u>8,202,221</u>
Profit before tax	<u>135,515</u>	<u>34,407</u>	<u>169,922</u>
Current assets	927,616	161,996	1,089,612
Non-current assets	<u>1,377,622</u>	<u>21,414</u>	<u>1,399,036</u>
Total segment assets	<u>2,305,238</u>	<u>183,410</u>	<u>2,488,648</u>
Current liabilities	1,735,205	113,849	1,849,054
Non current liabilities	<u>820,089</u>	<u>-</u>	<u>820,089</u>
Total segment liabilities	<u>2,555,294</u>	<u>113,849</u>	<u>2,669,143</u>

Sales revenue is based on the country in which the sales took place. Total assets are shown by the geographical area in which the assets are located. Both geographical segments are involved in the operation of retail supermarkets.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and exclude investments and amounts due from subsidiaries.

Segment liabilities consist of operating liabilities and exclude items such as dividends payable and amounts due to the parent company.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates risk, liquidity risk and interest rates risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management headed by the director risk and compliance committee.

The group maintains a conservative policy regarding currency and interest rate risks and does not engage in speculation in the markets. In addition, the group does not speculate or trade in derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates.

The group's exposure to the risk of changes in market interest rates relates primarily to the group's long and short term obligations with floating interest rates.

Interest margin may increase as a result of changes in the prevailing levels of base rates applied by Kenya Commercial Bank Limited, Eastern and Southern African Trade and Development Bank, Centum Investment Company Limited, debenture holders and the Government of Kenya based on lending covenants entered into with the company. The balances outstanding as at 30 June 2009 are disclosed under note 15.

The group's exposure to the risks associated with changes in interest rates is minimal as its borrowings are pegged to interest rates that were agreed in advance and do not change regularly.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

In light of this, the directors are of the opinion that any sensitivity analysis with respect to the interest rate risk would be unrepresentative.

Foreign currency exchange risk

The group's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the statement of financial position date. All gains or losses on changes in currency exchange rates are accounted for in the statement of comprehensive income. The group operates wholly within Kenya and Uganda and its assets and liabilities are mainly denominated in local currencies. Consequently, the group's exposure to exchange risk is minimal. In light of this, the directors are of the opinion that any sensitivity analysis with respect to the foreign exchange exposure would be unrepresentative.

Credit risk

The largest concentration of credit exposure within the group relate to cash held with banks and accounts receivable. The group has policies in place to ensure that services are provided to customers with an appropriate credit history. In addition, the group only deals with financial institutions which have a strong credit rating. The directors have the responsibility of managing the company's credit risk.

The amount that best represents the company's maximum exposure to the credit risk as at 30 June 2010 is made up as follows:

	Group		Company	
	2010	2009	2010	2009
Bank balance	107,110	104,037	46,018	51,512
Short term deposits	101,696	100,000	101,696	100,000
Trade and other receivables	259,108	268,110	215,689	218,871
Amounts due from related parties	-	-	115,679	255,440
	<u>467,914</u>	<u>472,147</u>	<u>479,082</u>	<u>625,823</u>

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the rate of 6.7% (2009: 7%).

Liquidity risk

Liquidity risk concerns the ability of the group to fulfil its financial obligations as they become due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group maintains a portfolio of short-term liquid assets, largely made up of bank balances and short term deposits to ensure that sufficient liquidity is maintained within the group as a whole. The group also arranges for short-term borrowings to ensure that the group's financial obligations are met.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the group's processes, personnel, technology and infrastructure and from external factors other than credit, interest rate, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the group's operations and are faced by all business units.

The group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced, and the adequacy of
- Controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

30. CAPITAL MANAGEMENT

The group's objectives when managing capital are to safeguard its ability to continue as a going concern and ultimately build an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the level of borrowings or shareholders equity or sell assets to reduce debt.

The group manages the following components as part of capital:

	2010 KShs '000'	2009 KShs '000'
Share capital	900,000	900,000
Reserves	638,933	(1,080,495)
Term loans - non current	(320,140)	(820,089)
Term loans - current	(132,142)	(360,000)
Debenture loans	-	(207,437)
	<u>1,086,651</u>	<u>(1,568,021)</u>

31. CAPITAL COMMITMENTS

There were no contracted capital commitments as at 30 June 2010.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

32. OPERATING LEASE COMMITMENTS

Operating lease commitments - Group and company as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Not later than one year	306,421	257,378	250,617	220,646
Later than one year and not later than five years	737,295	999,348	662,890	836,999
Later than five years	<u>267,014</u>	<u>475,410</u>	<u>267,014</u>	<u>475,410</u>
	<u>1,310,730</u>	<u>1,732,136</u>	<u>1,180,521</u>	<u>1,533,055</u>

Operating leases - Group and company as lessor

	Group		Company	
	2010	2009	2010	2009
	KShs'000	KShs'000	KShs'000	KShs'000
Not later than one year	21,673	11,398	21,673	11,398
Later than one year and not later than five years	<u>75,504</u>	<u>14,449</u>	<u>75,504</u>	<u>14,449</u>
	<u>97,177</u>	<u>25,847</u>	<u>97,177</u>	<u>25,847</u>

The group leases a number of branches and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease after that date. Lease payments are increased accordingly to reflect market rentals.

33. CONTINGENT LIABILITIES

On 2 July 2009, following a VAT compliance check covering the period January 2006 to December 2008, Kenya Revenue Authority (KRA) raised a tax assessment of KShs.23,486,955 being tax of KShs.15,801,910 and interest and penalty thereon of KShs.7,685,045. During the year, following discussions with KRA, the assessment was amended to KShs. 15,286,902 being tax of KShs. 11,112,328 and interest and penalty thereon of KShs. 4,174,574. During the year, the company paid the principal and has applied for the waiver of the interest and penalty. The directors are of the opinion that the waiver will be granted and thus, no liability has been recognised in these financial statements.

The group is also 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 losses.

34. COMPARATIVES

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