UCHUMI SUPERMARKETS LIMITED
AND SUBSIDIARIES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

30 JUNE 2011

CONTENTS

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2011

PRINCIPAL PLACE OF BUSINESS
Uchumi Supermarkets Limited
Yarrow Road,
Off Nanyuki Road
P.O. Box 73167
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

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

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

The directors submit their report and the audited financial statements for the year ended 30 June 2011 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. On 31 May 2011, the company shares started trading at the Nairobi Stock Exchange after the Capital Markets Authority lifted the suspension.

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 a dividend for the year.

5. RESERVES

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

6. DIRECTORS

The directors who served during the year until to the date of this report were:-

Eng. Abdulrazaq 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	
Mr. Jan Mohamed	- Appointed on 21 April 2011
Mr. Kungu Gatabaki	- Appointed on 21 April 2011

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

27/9/11........2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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 accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

....
Director

....
Director

27/9/11
....
Date

Ernst & Young
Certified Public Accountants
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 00100
Nairobi GPO - Kenya

Tel: +254 20 2715300
Fax: +254 20 2716271
E-mail: info@ke.ey.com
www.ey.com

ERNST & YOUNG

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

Report On the Financial Statements

We have audited the accompanying financial statements of Uchumi Supermarkets Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as set out on pages 7 to 53, which comprise the statement of financial position of the Group and the Company as at 30 June 2011 and the income statement of the Group and the Company, statement of 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 information.

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 in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an 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 about 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' judgment, 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 entity'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 financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 30 June 2011 and the financial performance and cash flows of the Group and the Company for the year then ended in accordance with 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's and the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

Ernst & Young

Nairobi

28 September 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(a)	1,438,734	687,428
Investment properties	4	750,000	580,000
Intangible asset	5	17,193	23,666
Prepaid operating lease rentals	6	20,013	20,284
Deferred tax asset	8.1	381,130	648,566
		2,607,070	1,959,944
CURRENT ASSETS			
Inventories	9	838,891	709,390
Trade and other receivables	10	329,095	259,108
Tax recoverable	8.1	2,356	4,101
Short term deposits	26	73,033	101,696
Bank and cash balances	26	154,275	119,272
		1,397,650	1,193,567
TOTAL ASSETS		4,004,720	3,153,511
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,327,133	900,000
Reserves	13	952,032	638,933
		2,279,165	1,538,933
NON-CURRENT LIBILITIES			
Term loans	14	183,368	320,140
CURRENT LIABILITIES			
Trade and other payables	15	1,110,984	1,090,383
Deferred revenue	16	47,688	47,780
Tax payable	8.1	2,263	-
Amounts due to related parties	11	10,785	14,433
Term loans	14	137,200	132,142
Bank overdraft	14	233,267	9,700
		1,542,187	1,294,438
TOTAL EQUITY AND LIABILITIES		4,004,720	3,153,511

The financial statements were approved by the Board of Directors on 7 September 2011 and were signed on its behalf by:-

....)

....) Directors

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
REVENUE			
Sales	18	10,770,961	9,559,682
Income from redemption of loyalty points	16	69,767	49,244
		10,840,728	9,608,926
COST OF SALES	19	(8,943,513)	(7,912,857)
		1,897,215	1,696,069
CHANGE IN VALUE OF INVESTMENT PROPERTIES	4	160,721	130,000
OTHER INCOME	20	290,840	307,842
		2,348,776	2,133,911
EXPENSES:-			
Administration and establishment	21	(1,727,672)	(1,498,717)
Selling and distribution	22	(102,641)	(98,444)
		(1,830,313)	(1,597,161)
PROFIT FROM OPERATING ACTIVITIES		518,463	536,750
FINANCE COSTS	23	(3,630)	(103,558)
PROFIT BEFORE TAX	24	514,833	433,192
INCOME TAX (EXPENSE)/ CREDIT	8.2	(124,408)	431,907
PROFIT FOR THE YEAR		390,425	865,099
ATTRIBUTABLE TO:			
Owners of the parent		390,425	865,099
EARNINGS PER SHARE			
Basic and diluted - KShs.	25	1.47	4.81

... SUPERMARKETS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
PROFIT FOR THE YEAR		390,425	865,099
OTHER COMPREHENSIVE INCOME:			
Revaluation of land and buildings		531,623	-
Deferred tax effect on revaluation surplus	8.1	(159,487)	-
Exchange differences on translation of foreign entity		(17,015)	(5,251)
Other comprehensive income for the year, net of taxes		355,121	(5,251)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		745,546	859,848
ATTRIBUTABLE TO:			
Owners of the parent		745,546	859,848

STATEMENT OF FINANCIAL POSITION OF THE COMPANY
AS AT 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(b)	1,230,055	672,556
Intangible asset	5	16,356	23,666
Prepaid operating lease rentals	6	20,013	20,284
Investments in subsidiaries	7	205,129	205,129
Deferred tax asset	8.1	373,319	640,756
		1,844,872	1,562,391
CURRENT ASSETS			
Inventories	9	758,002	635,443
Trade and other receivables	10	275,338	215,689
Amounts due from related parties	11	336,530	115,679
Tax recoverable	8.1	-	115
Short term deposits	26	73,033	101,696
Bank and cash balances	26	87,157	57,099
		1,530,060	1,125,721
TOTAL ASSETS		3,374,932	2,688,112
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,327,133	900,000
Reserves	13	455,613	293,960
		1,782,746	1,193,960
NON CURRENT LIABILITIES			
Term loans	14	183,368	320,140
CURRENT LIABILITIES			
Trade and other payables	15	977,615	969,957
Deferred revenue	16	47,688	47,780
Amount due to related parties	11	10,785	14,433
Tax payable	8.1	2,263	-
Term loans	14	137,200	132,142
Bank overdraft	14	233,267	9,700
		1,408,818	1,174,012
TOTAL EQUITY AND LIABILITIES		3,374,932	2,688,112

The financial statements were approved by the Board of Directors on 7 September 2011 and were signed on its behalf by:-

....)

....) Directors

INCOME STATEMENT OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
REVENUE			
Sales	18	9,794,441	8,589,301
Income from redemption of loyalty points	16	69,767	49,244
		9,864,208	8,638,545
COST OF SALES	19	(8,160,191)	(7,137,123)
		1,704,017	1,501,422
OTHER INCOME	20	247,410	269,978
		1,951,427	1,771,400
EXPENSES:-			
Administration and establishment	21	(1,524,384)	(1,290,060)
Selling and distribution	22	(90,367)	(83,084)
		(1,614,751)	(1,373,144)
PROFIT FROM OPERATING ACTIVITIES		336,676	398,256
FINANCE COSTS	23	(3,630)	(103,558)
PROFIT BEFORE TAX	24	333,046	294,698
INCOME TAX (EXPENSE)/CREDIT	8.2	(111,082)	424,097
PROFIT FOR THE YEAR		221,964	718,795
EARNINGS PER SHARE			
Basic and diluted - KShs.	25	0.84	3.99

STATEMENT OF COMPREHENSIVE INCOME OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
PROFIT FOR THE YEAR		221,964	718,795
OTHER COMPREHENSIVE INCOME:			
Revaluation of land and buildings		531,623	-
Deferred tax effect	8.1	(159,487)	-
Other comprehensive income for the year, net of taxes		372,136	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		594,100	718,795

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	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 2009	900,000	662,882	215,526	-	(16,745)	(1,942,158)	(180,495)
Equity pending allotment	-	-	-	859,580	-	-	859,580
Transfer to accumulated losses	-	-	(1,275)	-	-	1,275	-
Profit for the year	-	-	-	-	-	865,099	865,099
Other comprehensive income for the year	-	-	-	-	(5,251)	-	(5,251)
At 30 June 2010	900,000	662,882	214,251	859,580	(21,996)	(1,075,784)	1,538,933
At 1 July 2010	900,000	662,882	214,251	859,580	(21,996)	(1,075,784)	1,538,933
Equity allotment	427,133	427,133	-	(854,266)	-	-	-
Reversal of excess interest capitilised	-	-	-	(5,314)	-	-	(5,314)
Transfer to accumulated losses	-	-	(7,887)	-	-	7,887	-
Profit for the year	-	-	-	-	-	390,425	390,425
Other comprehensive income for the year	-	-	372,136	-	(17,015)	-	355,121
At 30 June 2011	1,327,133	1,090,015	578,500	-	(39,011)	(677,472)	2,279,165

UCHUMI SUPERMARKETS LIMITED
STATEMENT OF CHANGES IN EQUITY OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2011

	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 2009	900,000	662,882	215,526	-	(2,162,823)	(384,415)
Equity pending allotment				859,580	-	859,580
Transfer to accumulated losses	-	-	(1,275)	-	1,275	-
Profit for the year	-	-	-	-	718,795	718,795
At 30 June 2010	900,000	662,882	214,251	859,580	(1,442,753)	1,193,960
At 1 July 2010	900,000	662,882	214,251	859,580	(1,442,753)	1,193,960
Equity allotment	427,133	427,133	-	(854,266)	-	-
Reversal of excess interest capitilised	-	-	-	(5,314)	-	(5,314)
Transfer to accumulated losses	-	-	(7,887)	-	7,887	-
Profit for the year	-	-	-	-	221,964	221,964
Other comprehensive income for the year	-	-	372,136	-	-	372,136
At 30 June 2011	1,327,133	1,090,015	578,500	-	(1,212,902)	1,782,746

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		514,833	433,192
Adjustments for:			
Depreciation of property, plant and equipment	3(a)	79,069	57,936
Change in fair value of investment properties	4	(160,721)	(130,000)
Amortisation of prepaid operating lease rentals	6	271	271
Amortisation of intangible asset	5	14,371	11,258
Reversal of excess interest capitalised		(5,314)	-
Profit on disposal of property, plant and equipment		(840)	(499)
Operating profit before working capital changes		441,669	372,158
(Increase)/decrease in trade and other receivables		(69,987)	9,002
(Decrease) / increase in amounts due to related parties		(3,648)	339
Increase in inventories		(129,501)	(101,441)
Increase/(decrease)in trade and other payables		19,849	(54,863)
(Decrease)/increase in deferred revenue		(92)	10,470
Net cash flows from operations		258,290	235,665
Income tax paid	8.1	(10,781)	(3,986)
Net cash generated from operating activities		247,509	231,679
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(a)	(300,073)	(59,888)
Proceeds from disposal of plant and equipment		1,307	499
Additions to investment properties	4	(9,279)	-
Purchase of intangible asset	5	(7,962)	(8,578)
Net cash used in investing activities		(316,007)	(67,967)
FINANCING ACTIVITIES			
Repayments of long term borrowing		(131,714)	(75,664)
Net cash used in financing activities		(131,714)	(75,664)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(200,212)	88,048
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		211,268	128,471
Effects of exchange rate changes on opening net investment in foreign entity		(17,015)	(5,251)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	(5,959)	211,268

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
STATEMENT OF CASH FLOWS OF THE COMPANY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 KShs'000	2010 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		333,046	294,698
Adjustments for:			
Depreciation of property, plant and equipment	3 (b)	71,966	50,707
Amortisation of prepaid operating lease rentals	6	271	271
Profit on disposal of property, plant and equipment		(840)	(499)
Reversal of excess interest capitalised		(5,314)	-
Amortisation of intangible asset	5	13,921	11,258
Operating profit before working capital changes		413,050	356,435
(Increase)/decrease in trade and other receivables		(59,649)	3,182
(Increase)/decrease in related parties balances		(224,499)	140,100
Increase in inventories		(122,559)	(88,701)
Increase/(decrease) in trade and other payables		7,658	(61,440)
(Decrease)/increase in deferred revenue		(92)	10,470
Cash flows from operations		13,909	360,046
Tax paid	8.1	(754)	-
Net cash generated from operating activities		13,155	360,046
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(b)	(98,309)	(59,200)
Proceeds from disposal of property and equipment		1,307	499
Purchase of intangible asset	5	(6,611)	(8,578)
Increase in investment in subsidiary company		-	(144,929)
Net cash used in investing activities		(103,613)	(212,208)
FINANCING ACTIVITIES			
Repayments of long term		(131,714)	(75,664)
Net cash used in financing activities		(131,714)	(75,664)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(222,172)	72,174
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		149,095	76,921
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	(73,077)	149,095

1. GENERAL INFORMATION

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

The company's shares resumed trading at the Nairobi Stock Exchange from 31 May 2011 after being approved by the Capital Markets Authority. The shares had been suspended from trading at the Nairobi Stock Exchange from 2 June 2006 when the company was placed under receivership. The receivership was, however, uplifted by the debenture holders on 4 March 2010.

The consolidated financial statements for the year ended 30 June 2011 were authorised for issue by the directors on 07 September 2011.

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:

2. ACCOUNTING POLICIES (Continued)

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

Property, plant and equipment
The directors make 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 recognised 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.

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

e) New accounting standards, amendments and interpretations

The Group has adopted the following new standards, amendments and interpretations as at 1 July 2010.

IFRS 2, Group Cash-settled Share-based Payment Arrangements - Effective for annual periods beginning on or after 1 January 2010. IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers, but the parent or another entity in the group pays for those goods or services. The amendments clarify that the scope of IFRS 2 includes such transactions. The amendment incorporates the guidance from IFRIC 8 Scope of IFRS 2 and IFRIC 11 Group and Treasury Share Transactions and hence both IFRIC 8 and IFRIC 11 have been withdrawn.

2. ACCOUNTING POLICIES (Continued)

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

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. IFRS 1 has been amended to provide additional exemptions from full retrospective application of IFRS for the measurement of oil & gas assets and leases as follows:

- Entities that have measured exploration and evaluation assets, and assets in the development or production phases using 'full cost accounting', can measure these assets at the amounts determined under previous GAAP at the date of transition. Where an entity uses this exemption, it must test all such assets for impairment at the date of transition to IFRS.
- Where an entity uses the above deemed cost exemption for oil and gas assets, the related decommissioning and restoration liabilities are measured at the date of transition in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Any adjustment of the carrying amount as recognised under previous GAAP is recognised in retained earnings.
- Where an entity has, under previous GAAP, made the same determination of whether an arrangement contains a lease as required by IFRIC 4, Determining whether an arrangement contains a lease, but that assessment was made at a date other than that required by IFRIC 4, the entity does not need to reassess that determination.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters - Effective for annual periods beginning on or after 1 July 2010. IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were amended to clarify that the disclosures need not be provided for:

- Annual or interim periods, including any statement of financial position, presented with an annual comparative period ending before 31 December 2009
- Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009

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.
- The rights are to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments - Effective for annual periods beginning on or after 1 July 2010. IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39, Financial Instruments: Recognition and Measurement.
The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished.

2. ACCOUNTING POLICIES (Continued)

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

Any gain or loss is recognised immediately in profit or loss. If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to a modification of the liability outstanding. If so, the consideration paid is allocated between the two parts. The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability.

IFRS 7 Financial Instruments Disclosures
Clarification of disclosures
The amendment emphasises the interaction between quantitative and qualitative disclosures and nature and extent of risks associated with financial instruments.

Amendments to quantitative and credit risk disclosures have the following effects:

- Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
- Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
- Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
- Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
- Clarify that the additional disclosures required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

The amendment is applied retrospectively.

IAS 34 Interim Financial Statements
Significant events and transactions - The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:
The circumstances likely to affect fair values of financial instruments and their classification

- Transfers of financial instruments between different levels of the fair value hierarchy
- Changes in contingent liabilities and assets
- Changes in classification of financial assets

Improvements to international Financial Reporting Standards (Issued 2009)
The Improvements to IFRS project is an annual process that the IASB has adopted to deal with non-urgent but necessary amendments to IFRS (the 'annual improvements process'). In the second omnibus edition, 15 amendments to 12 standards. are dealt with by the IASB. The following summarises only those amendments that will be effective for June 2011 year ends.

2. ACCOUNTING POLICIES (Continued)

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5. Effective prospectively for annual periods beginning on or after 1 January 2010.

IFRS 8 Operating Segments - Disclosure of Information about segment assets. Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker. Effective for annual periods beginning on or after 1 January 2010.

IAS 1 Presentation of Financial Statements - Current/non-current classification of convertible instruments. The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. Effective for annual periods beginning on or after 1 January 2010.

IAS 7 Statement of Cash Flows - Classification of expenditures on unrecognised assets. Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. Effective for annual periods beginning on or after 1 January 2010.

IAS 17 Leases - Classification of land and buildings - The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. Effective for annual periods beginning on or after 1 January 2010.

IAS 36 Impairment of Assets - The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. Effective prospectively for annual periods beginning on or after 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement

Assessment of loan prepayment penalties as embedded derivatives - A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. Effective for annual periods beginning on or after 1 January 2010.

Scope exemption for business combination contract - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

Cash flow hedge accounting - Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

2. ACCOUNTING POLICIES (Continued)

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

In this third omnibus edition, the IASB issued eleven amendments to six standards and one interpretation. The following summarises the five amendments that will be effective for June 2011 year-ends.

IFRS 3 Business Combinations

Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. - The amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after 1 July 2010. The amendment is applied retrospectively.

Measurement of non-controlling interests (NCI) - The amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value, or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2. Applicable to annual periods beginning on or after 1 July 2010. The amendment is applied prospectively from the date the entity applies IFRS 3 (Revised).

Un-replaced and voluntarily replaced share-based payment awards - The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. The amendment is applicable to annual periods beginning on or after 1 July 2010. The amendment is applied prospectively.

IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements. The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applicable to annual periods beginning on or after 1 July 2010; it is applied retrospectively.

2. ACCOUNTING POLICIES (Continued)

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

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 2010. 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 (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. When an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to severe hyperinflation (the functional currency normalisation date), the entity may elect to measure all assets and liabilities held before the functional currency normalisation date that were subject to severe hyperinflation, at fair value, on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS.

IFRS 7 Financial Instruments: Disclosures (Amendment)- Effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

IAS 24 Related Party Disclosures (Revised) - Effective for annual periods beginning on or after 1 January 2011. The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

A partial exemption from the disclosures has been included for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

- The name of the government and the nature of its relationship with the reporting entity
- The nature and amount of individually significant transactions
- A qualitative or quantitative indication of the extent of other transactions that are collectively significant.

2. ACCOUNTING POLICIES (Continued)

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

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) - Effective for annual periods beginning on or after 1 January 2011. IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Improvements to International Financial Reporting Standards (issued 2010)

These amendments are effective for periods beginning on or after 1 January 2011. Earlier application is permitted in all cases. In this omnibus edition, the IASB issued eleven amendments to six standards and one interpretation. The following summarises the six amendments included that will be effective for June 2012 year ends.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.

Revaluation basis as deemed cost- The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).

IAS 1 Presentation of Financial Statements
Clarification of statement of changes in equity - The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectivety

IFRIC 13 Customer Loyalty Programmes
Fair value of award credit - The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively.

IFRS 9 Financial Instruments
Classification and measurement of financial assets and liabilities. Effective 1 January 2013. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

2. ACCOUNTING POLICIES (Continued)

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

IAS 12 Income Taxes
The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Effective 1 January 2012.

IFRS 10 Consolidated Financial Statements
This new standard includes a new definition of control which is used to determine which entities are consolidated. This will apply to all entities, including special purpose entities (now known as 'structured entities'). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore consolidated, and may result in a change to the entities which are within a group. Effective 1 January 2013.

IFRS 11 Joint Arrangements
This new standard describes the accounting for joint arrangements with joint control; proportionate consolidation will no longer be permitted for joint ventures. Effective 1 January 2013.

IFRS 12 Disclosures of Interests in Other Entities
This new standard describes all the disclosures that are required relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. An entity is now required to disclose the judgements made to determine whether it controls another entity. Effective 1 January 2013.

IFRS 13 Fair Value Measurement
This new standard provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value measurement is required or permitted by IFRS. Effective 1 January 2013.

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.

2. ACCOUNTING POLICIES (Continued)

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.

Revenue is recognised as the risk expires which is based on the number of points that have been redeemed relative to the total number expected to be redeemed.

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.

Provision for obsolescence is done on the basis of the period an item is projected to take to clear from the shelves for the two main categories of inventory being food and non-food items as follows;

Food items

Between 3 and 6 months	50%
Between 6 and 9 months	75%
Over 9 months	100%

Non foods items

Between 9 and 18 months	50%
Between 18 and 24 months	75%
Over 24 months	100%

Purchases made within the last 12 months are not considered for impairment.

i) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

2. ACCOUNTING POLICIES (Continued)

i) Property, plant and equipment (Continued)

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognized in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit or loss, in which case the increase is recognised in the profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful lives 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)

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

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

Property plant and equipment are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the profit or loss. The recoverable amount 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.

2. ACCOUNTING POLICIES (Continued)

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.

Monetary assets and liabilities in foreign currencies have been translated at rates approximating the mean rates of exchange ruling at the reporting 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 profit or loss or, where appropriate, recharged to the relevant third party.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date, and their income statements are translated at the weighted average exchange rates for the period. Exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised through other comprehensive income into the profit or loss.

k) Financial instruments

Financial assets and liabilities are recognized in the group's reporting when the group becomes a party to contractual provisions of the instrument.

Financial assets are recognized initially at fair value plus directly attributable transaction costs.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The subsequent measurement of financial assets and liabilities depends on their classification as follows:

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.

2. ACCOUNTING POLICIES (Continued)

k) Financial instruments (Continued)

Trade and other receivables (Continued)

Impairment of financial assets
The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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. The loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. Impaired debts are derecognised when they are assessed as uncollectible.

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.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position 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 statement of cash flows, 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.

Trade 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.

2. ACCOUNTING POLICIES (Continued)

k) Financial instruments (Continued)

Derecognition of financial assets

i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the group's continuing involvement is the amount of the transferred asset that the group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognize in the income statement

2. ACCOUNTING POLICIES (Continued)

l) Tax

Current corporate tax
Current corporate tax is provided on the basis of the results for the year as shown in the income statement, adjusted in accordance with the tax legislations and at the tax rate, enacted or substantively enacted at the reporting 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.
Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in profit or loss.

Deferred income tax
Deferred income tax is provided using the liability method, on all temporary differences at the reporting 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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.

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 statement of financial position.

2. ACCOUNTING POLICIES (Continued)

m) 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 profit or loss in the year to which they relate.

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

n) 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. An asset's recoverable amount is the higher its fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses are recognised in the profit or loss, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation..

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

o) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

2. ACCOUNTING POLICIES (Continued)

p) 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.

q) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee
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 if there is no reasonable certainty that the group will obtain ownership. Otherwise the asset is depreciated over its useful life.

Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer 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 rental income.
Contingent rents are recognised as revenue in the period in which they are earned.

r) 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 amortised 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.

2. ACCOUNTING POLICIES (Continued)

s) Cost of sales

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

t) Investments in subsidiaries

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

u) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

v) 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, Uganda and Tanzania.

w) 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 reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss 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.

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

At 30 June 2011:	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 2010	581,882	263,111	344,752	630,104	1,819,849
Increase on revaluation	515,000	-	-	-	515,000
Additions	-	13,531	181,712	104,830	300,073
Disposals	-	-	(2,260)	(4,500)	(6,760)
Exchange differences	-	(5,086)	(6,210)	(3,630)	(14,926)
At 30 June 2011	1,096,882	271,556	517,994	726,804	2,613,236
Comprising:					
Cost	6,882	271,556	517,994	726,804	1,523,236
Valuation	1,090,000	-	-	-	1,090,000
	1,096,882	271,556	517,994	726,804	2,613,236
DEPRECIATION					
At 1 July 2010	23,505	193,811	323,196	591,909	1,132,421
Eliminated on revaluation	(16,623)	-	-	-	(16,623)
Charge for the year	18,667	26,073	10,537	23,792	79,069
Disposals	-	-	(1,794)	(4,500)	(6,294)
Exchange differences	-	(4,240)	(5,891)	(3,940)	(14,071)
At 30 June 2011	25,549	215,644	326,048	607,261	1,174,502
NET BOOK VALUE					
At 30 June 2011	1,071,333	55,912	191,946	119,543	1,438,734

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

Buildings and freehold land were valued in August 2010 by Kiragu & Mwangi 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, net of deferred tax, was credited to revaluation surplus in equity.

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

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	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
	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, net of deferred tax, was credited to revaluation surplus in equity.

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

At 30 June 2011:	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 2010	581,882	225,527	298,823	601,048	1,707,280
Increase on revaluation	515,000	-	-	-	515,000
Additions	-	10,949	29,287	58,073	98,309
Disposals	-	-	(2,260)	(4,500)	(6,760)
At 30 June 2011	1,096,882	236,476	325,850	654,621	2,313,829
Comprising:					
Cost	6,882	236,476	325,850	654,621	1,223,829
Valuation	1,090,000	-	-	-	1,090,000
	1,096,882	236,476	325,850	654,621	2,313,829
DEPRECIATION					
At 1 July 2010	23,505	163,847	280,335	567,037	1,034,724
Eliminated on revaluation	(16,623)	-	-	-	(16,623)
Charge for the year	18,667	22,313	8,115	22,871	71,966
Disposals	-	-	(1,793)	(4,500)	(6,293)
At 30 June 2011	25,549	186,160	286,657	585,408	1,083,774
NET BOOK VALUE					
At 30 June 2011	1,071,333	50,316	39,193	69,213	1,230,055

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

Buildings and freehold land were valued in August 2010 by Kiragu & Mwangi 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, net of deferred tax, was credited to revaluation surplus in equity.

3. (b) PROPERTY, PLANT AND EQUIPMENT (Continued)
(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	581,882	225,527	298,823	601,048	1,707,280
Comprising:					
Cost	6,882	225,527	298,823	601,048	1,132,280
Valuation	575,000	-	-	-	575,000
	581,882	225,527	298,823	601,048	1,707,280
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	23,505	163,847	280,335	567,037	1,034,724
NET BOOK VALUE					
At 30 June 2010	558,377	61,680	18,488	34,011	672,556

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, net of deferred tax, was credited to revaluation surplus in equity.

4. INVESTMENT PROPERTIES

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Balance brought forward	580,000	450,000	-	-
Change in fair value during the year	160,721	130,000		
Additions	9,279	-	-	-
At 30 June	750,000	580,000	-	-

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.750 million by Kiragu & Mwangi Limited, accredited independent valuers, as at 30 June 2011. The present value of the ground rent obligations is immaterial and thus, the valuation amount of KShs.750 million is equivalent to the fair values of these properties.

Additions relate to the cost incurred in constructing a perimeter wall around the properties.

5. INTANGIBLE ASSET

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
COST				
Balance brought forward	37,702	29,124	37,702	29,124
Additions	7,962	8,578	6,611	8,578
Exchange difference	(96)	-	-	-
At 30 June	45,568	37,702	44,313	37,702
AMORTISATION				
Balance brought forward	14,036	2,778	14,036	2,778
Amortisation for the year	14,371	11,258	13,921	11,258
Exchange difference	(32)	-	-	-
At 30 June	28,375	14,036	27,957	14,036
NET BOOK VALUE At 30 June	17,193	23,666	16,356	23,666

Intangible asset relate to the computer software acquisition costs.

6. PREPAID OPERATING LEASE RENTALS

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Balance brought forward	20,284	20,555	20,284	20,555
Amortisation for the year	(271)	(271)	(271)	(271)
At 30 June	20,013	20,284	20,013	20,284

7. INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	Shareholding	2011 KShs'000	2010 KShs'000
Uchumi Supermarkets (Uganda) Limited	Uganda	100%	204,929	204,929
Uchumi Supermarkets (Tanzania) Limited	Tanzania	100%	-	-
Kasarani Mall Limited	Kenya	100%	200	200
			205,129	205,129

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

The results of Uchumi Supermarkets (Uganda) Limited, Uchumi Supermarkets (Tanzania) Limited and Kasarani Mall Limited have been consolidated in these financial statements. There is another wholly owned subsidiary, Uchumi Holdings Limited, incorporated in Kenya which has two issued shares of nominal amounts. Uchumi Holdings Limited is dormant.

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
8. TAXES				
8.1 STATEMENT OF FINANCIAL POSITION				
INCOME TAX RECOVERABLE/(PAYABLE)				
Balance brought forward	4,101	115	115	115
Tax charge for the year	(15,024)	-	(5,004)	-
Prior year (under)/overprovision	(1,435)	-	1,872	-
Tax paid during the year	10,781	3,986	754	-
Exchange difference	1,670	-	-	-
At 30 June	93	4,101	(2,263)	115
Comprising:				
Tax recoverable	2,356	4,101	-	115
Tax payable	(2,263)	-	(2,263)	-
	93	4,101	(2,263)	115

DEFERRED TAX ASSET
Movements in deferred tax during the year were as follows;

Group *At 30 June*	2010 KShs'000	Income statement KShs'000	Equity KShs'000	2011 KShs'000
Deferred tax asset is attributable to the following items:				
Tax losses carried forward	576,155	108,154	-	468,001
Excess of depreciation over tax allowances	53,371	2,601	-	50,770
Other temporary differences	19,040	(2,806)	-	21,846
Revaluation reserve	-	-	(159,487)	(159,487)
	648,566	107,949	(159,487)	381,130

8. TAXES (Continued)

8.1 STATEMENT OF FINANCIAL POSITION (Continued)

DEFERRED TAX ASSET (Continued)

	2010	Income statement	Equity	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Company				
Tax losses carried forward	571,901	103,900	-	468,001
Excess of depreciation over tax allowances	52,579	3,125	-	49,454
Other temporary differences	16,276	925	-	15,351
Revaluation reserve	-	-	(159,487)	(159,487)
	640,756	107,950	(159,487)	373,319

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
8.2 INCOME STATEMENT				
Deferred tax (charge)/credit	(107,949)	431,907	(107,950)	424,097
Corporation tax	(15,024)	-	(5,004)	-
Prior year overprovision	(1,435)	-	1,872	-
	(124,408)	431,907	(111,082)	424,097
Accounting profit before tax	514,833	433,192	333,047	294,698
Tax calculated at tax rate of 30%	(154,450)	(129,958)	(99,914)	(88,409)
Tax effects on items not deducted for tax	(11,692)	(15,122)	(32,297)	(31,991)
Originating and reversing temporary	41,734	576,987	21,129	544,497
	(124,408)	431,907	(111,082)	424,097

9. INVENTORIES

Food	331,704	269,832	295,003	244,768
Non-food	251,947	185,851	208,899	168,730
Other	255,240	253,707	254,100	221,945
	838,891	709,390	758,002	635,443

10. TRADE AND OTHER RECEIVABLES

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Trade receivables	57,931	47,792	44,762	36,941
Prepayments and other receivables	271,164	211,316	230,576	178,748
	329,095	259,108	275,338	215,689
Aging analysis of trade receivables:				
Neither past due nor impaired	38,999	32,815	29,524	26,323
Past due but not impaired: 30 to 60 days	18,932	14,977	15,238	10,618
Impaired: Over 60 days	24,818	20,695	22,565	17,149
	82,749	68,487	67,327	54,090
Allowance for credit losses	(24,818)	(20,695)	(22,565)	(17,149)
	57,931	47,792	44,762	36,941
Movement in allowance for credit losses:				
At 1 July	20,695	22,932	17,149	20,879
Income statement movement(note 20 and 21)	4,123	(2,237)	5,416	(3,730)
At 30 June	24,818	20,695	22,565	17,149

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.

Neither past due nor impaired
The group classifies trade receivables under this category for receivables that are up to date with their payments and conforming to all the agreed terms and conditions. Such customers are financially sound and demonstrate capacity to continue to service their debts in the future.

11. RELATED PARTY TRANSACTIONS

The company 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 2011 KShs'000	Company 2010 KShs'000
i) Amounts due from related parties:		
Uchumi Supermarkets (Uganda) Limited	9,413	5,168
Uchumi Supermarkets (Tanzania) Limited	204,509	-
Kasarani Mall Limited	122,608	110,511
	336,530	115,679

11. RELATED PARTY TRANSACTIONS (Continued)

ii) Amounts due to related parties:

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Industrial and Commercial Development Corporation (ICDC)	369	-	369	-
Kenya Wine Agencies Limited (KWAL)	10,416	14,433	10,416	14,433
	10,785	14,433	10,785	14,433

The balance due from Uchumi Supermarkets (Uganda) Limited relates to costs of staff seconded to the subsidiary. The balance due from Uchumi Supermarkets (Tanzania) Limited relates to costs incurred to set up the subsidiary which commenced operations in July 2011. The balance due from Kasarani Mall Limited relates to purchase and maintenance costs of the investment property.

During the year, KWAL and ICDC traded with the company in the normal course of business. The balances due to ICDC and KWAL relate to outstanding amounts at year end.

The table below shows total amount of transactions that have been entered into with related parties;-

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Purchases from KWAL	10,750	14,433	10,416	14,433
Purchases from ICDC	369	-	369	-

iii) Senior management compensation:

	Group 2011	Group 2010	Company 2011	Company 2010
Short term employee benefits	41,407	36,162	35,957	31,981
Post employment benefits	3,013	2,381	3,013	2,374
	44,420	38,543	38,970	34,355

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2011, the group did not record any impairment of receivables relating to amounts owed by related parties (2010: KShs Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

12. SHARE CAPITAL

	2011	2010
	KShs'000	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	500,000	500,000
	2,000,000	2,000,000
Issued and fully paid:		
265,426,614 (2010: 180,000,000) ordinary shares of Shs.5 each	1,327,133	900,000

13. RESERVES

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Accumulated losses	(677,472)	(1,075,784)	(1,212,902)	(1,442,753)
Share premium	1,090,015	662,882	1,090,015	662,882
Revaluation reserve	578,500	214,251	578,500	214,251
Translation reserve	(39,011)	(21,996)	-	-
Equity pending allotment	-	859,580	-	859,580
	952,032	638,933	455,613	293,960

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 foreign subsidiary, Uchumi Supermarkets (Uganda) Limited, to Kenya Shillings.

Equity pending allotment represented proceeds from conversion of debenture and term loans as approved by shareholders during the Annual General Meeting held on 29 January 2010. The proceeds were capitalised during the year after approval was obtained from the Capital Markets Authority.

14. LOANS

	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Borrowings are made up as follows:				
a) Non-current				
Term loan	183,368	320,140	183,368	320,140
b)Current				
Bank overdraft	233,267	9,700	233,267	9,700
Term loan	137,200	132,142	137,200	132,142
	370,467	141,842	370,467	141,842
	553,835	461,982	553,835	461,982
Maturity profile of non-current borrowings				
Between 1 and 2 years	104,469	95,605	104,469	95,605
Between 2 and 5 years	78,899	224,535	78,899	224,535
	183,368	320,140	183,368	320,140
Term Loan				
Non-current				
Centum Investment Company Limited	-	40,000	-	40,000
Government of Kenya	183,368	280,140	183,368	280,140
	183,368	320,140	183,368	320,140

14. LOANS (Continued)

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Current				
Eastern and Southern African Trade and Development Bank	-	27,463	-	27,463
Kenya Commercial Bank Limited	-	17,547	-	17,547
Centum Investment Company Limited	40,000		40,000	
Government of Kenya	97,200	87,132	97,200	87,132
	137,200	132,142	137,200	132,142

The loans from Kenya Commercial Bank Limited and Eastern and Southern African Trade and Development Bank were fully repaid during the year.

The loan from the Government of Kenya was restructured in December 2009 with KShs.350 million converted into equity and the balance to be repaid up to December 2014. An amount of KShs 60 million is repayable every six months as per the loan agreement.

The loan from Centum Investment Company Limited is repayable within the next 12 months. Interest on this loan was suspended with the mutual agreement of the lender.

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:

	2011	2010
Term loan	9.50%	9.94%
Bank overdrafts	14.34%	12.14%

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 reporting date.

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Trade payables	995,040	930,831	883,775	831,107
Accrued expenses	75,849	115,169	56,515	106,388
Other payables	40,095	44,383	37,325	32,462
	1,110,984	1,090,383	977,615	969,957

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

16. DEFERRED REVENUE	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
At 1 July	47,780	37,310	47,780	37,310
Deferred during the year	69,675	59,714	69,675	59,714
Released to the income statement	(69,767)	(49,244)	(69,767)	(49,244)
At 30 June	47,688	47,780	47,688	47,780

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

Group

At 30 June 2011:	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
ASSETS				
Trade receivables	-	57,931	-	57,931
	-	57,931	-	57,931
LIABILITIES				
Term loans	-	320,568	-	320,568
Trade payables	-	995,040	-	995,040
	-	1,315,608	-	1,315,608
At 30 June 2010:				
ASSETS				
Trade receivables	-	47,792	-	47,792
	-	47,792	-	47,792
LIABILITIES				
Term loans	-	452,282	-	452,282
Trade payables	-	930,831	-	930,831
	-	1,383,113	-	1,383,113

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Company	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
At 30 June 2011:				
ASSETS				
Trade receivables	-	44,762	-	44,762
	-	44,762	-	44,762
LIABILITIES				
Term loans	-	320,568	-	320,568
Trade payables	-	883,775	-	883,765
	-	1,204,343	-	1,204,333
At 30 June 2010:				
ASSETS				
Trade receivables	-	36,941	-	36,941
	-	36,941	-	36,941
LIABILITIES				
Term loans	-	452,282	-	452,282
Trade payables	-	831,107	-	831,107
	-	1,283,389	-	1,283,389

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

18. SALES	Group 2011 KShs'000	Group 2010 KShs'000	Company 2011 KShs'000	Company 2010 KShs'000
Food	6,934,877	6,074,602	6,374,229	5,600,923
Personal care	2,142,710	1,982,226	1,931,573	1,698,157
General merchandise	1,528,652	1,355,266	1,367,659	1,186,701
Textiles	164,722	147,588	120,980	103,520
	10,770,961	9,559,682	9,794,441	8,589,301

19. COST OF SALES

Food	5,789,360	5,041,981	5,311,668	4,647,419
Personal care	1,772,451	1,631,604	1,619,723	1,423,571
General merchandise	1,205,832	1,083,528	1,085,841	945,252
Textiles	175,870	155,744	142,959	120,881
	8,943,513	7,912,857	8,160,191	7,137,123

		Group		Company	
		2011	2010	2011	2010
20.	OTHER INCOME	KShs'000	KShs'000	KShs'000	KShs'000
	Promotions income	67,018	43,269	58,357	43,269
	Profit on disposal of property, plant and equipment	840	499	840	499
	Speciality shop income	155,407	186,328	127,208	157,956
	Decrease in allowance for credit losses	1,291	2,237	-	3,730
	Miscellaneous income	66,284	75,509	61,005	64,524
		290,840	307,842	247,410	269,978
21.	ADMINISTRATION AND ESTABLISHMENT EXPENSES				
	Staff costs (Note 27)	589,141	458,361	526,133	414,943
	Establishment costs	604,294	525,779	519,075	452,537
	Computer expenses	30,562	21,293	29,179	20,172
	Motor running expenses	30,008	22,384	30,008	22,384
	Auditors' remuneration	8,250	7,616	6,050	5,500
	Consultancy fees	41,401	28,999	38,957	22,705
	Increase in allowance for credit losses	5,416	-	5,416	-
	Credit card commission	33,030	27,819	33,030	27,819
	Bank charges and commission	10,532	27,783	8,806	26,943
	Amortisation of intangible asset	14,371	11,258	13,921	11,258
	Amortisation of operating lease rentals	271	271	271	271
	Depreciation of property and equipment	79,069	57,936	71,966	50,707
	General expenses	281,327	309,218	241,572	234,821
		1,727,672	1,498,717	1,524,384	1,290,060
22.	SELLING AND DISTRIBUTION				
	Marketing expenses	102,641	98,444	90,367	83,084
23.	FINANCE COSTS				
	Interest - bank overdraft	-	672	-	672
	Interest - unsecured loans	3,535	56,398	3,535	56,398
	Interest - secured loans	95	27,999	95	27,999
	Interest - debenture	-	18,489	-	18,489
		3,630	103,558	3,630	103,558
24.	PROFIT BEFORE TAX				
	The profit before tax is stated after charging:-				
	Depreciation of property, plant and equipment	79,069	57,936	71,966	50,707
	Amortisation of intangible asset	14,371	11,258	13,921	11,258
	Amortisation of operating lease rentals	271	271	271	271
	Auditors' remuneration	8,250	7,616	6,050	5,500
	Staff costs:				
	Salaries and wages	586,128	455,507	523,120	412,569
	Pension costs	3,013	2,854	3,013	2,374

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	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year	390,425	865,099	221,964	718,795
Number of ordinary shares	265,427	180,000	265,427	180,000
Profit per share - KShs.	1.47	4.81	0.84	3.99

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	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Bank and cash balances	154,275	119,272	87,157	57,099
Short term deposits	73,033	101,696	73,033	101,696
Bank overdraft	(233,267)	(9,700)	(233,267)	(9,700)
	(5,959)	211,268	(73,077)	149,095

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 3.5% (2010:7%).

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.

27. EMPLOYEE BENEFITS

	Group		Company	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Salaries	513,908	411,703	458,930	370,844
Medical	22,474	19,147	19,819	17,068
Pension	3,013	2,854	3,013	2,374
Other	49,746	24,657	44,371	24,657
	589,141	458,361	526,133	414,943

28. SEGMENT INFORMATION

	Kenya KShs '000	Uganda KShs '000	Tanzania KShs '000	Group KShs '000
Year ended 30 June 2011:				
Sales	9,794,441	976,520	-	10,770,961
Profit/(loss) before tax	493,767	32,749	(11,683)	514,833
Current assets	1,193,531	157,323	46,796	1,397,650
Non-current assets	2,391,959	69,675	145,436	2,607,070
Total segment assets	3,585,490	226,998	192,232	4,004,720
Current liabilities	1,408,817	133,370	-	1,542,187
Non-current liabilities	183,368	-	-	183,368
Total segment liabilities	1,592,185	133,370	-	1,725,555
Year ended 30 June 2010:				
Sales	8,589,301	970,381	-	9,559,682
Profit before tax	424,698	8,494	-	433,192
Current assets	1,015,214	178,353	-	1,193,567
Non-current assets	1,937,258	22,686	-	1,959,944
Total segment assets	2,952,472	201,039	-	3,153,511
Current liabilities	1,174,006	120,432	-	1,294,438
Non-current liabilities	320,140	-	-	320,140
Total segment liabilities	1,494,146	120,432	-	1,614,578

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. All the 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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 Centum Investment Company Limited and the Government of Kenya based on lending covenants entered into with the company. The balances outstanding as at 30 June 2011 are disclosed under note 14.

The group's exposure to the risks associated with changes in interest rates is minimal as its borrowings are pegged to fixed interest rates that were agreed in advance and do not change. 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 reporting date. All gains or losses on changes in currency exchange rates are accounted for in the profit or loss. The group operates wholly within Kenya, Uganda and Tanzania 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 2011 is made up as follows:

	Group		Company	
	2011	2010	2011	2010
Bank balance	107,479	107,110	87,157	46,018
Short term deposits	73,033	101,696	73,033	101,696
Trade receivables	57,931	47,792	44,762	36,941
Amounts due from related parties	-	-	336,530	115,679
	238,443	256,598	541,482	300,334

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 3.5% (2010: 7%).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

The group's non derivative financial liabilities mainly comprise of trade and other payables which are short term in nature with maturities of between 30 and 60 days.

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:

	2011 KShs '000	2010 KShs '000
Share capital	1,327,133	900,000
Reserves	952,032	638,933
	2,279,165	1,538,933

31. CAPITAL COMMITMENTS

There were no contracted capital commitments as at 30 June 2011.

32. OPERATING LEASE COMMITMENTS

Operating lease commitments - Group and company as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Not later than one year	237,400	250,617	218,941	250,617
Later than one year and not later than five years	831,661	662,890	831,662	662,890
Later than five years	405,116	267,014	405,116	267,014
	1,474,177	1,180,521	1,455,719	1,180,521

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.