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UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

30 JUNE 2012

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BOARD OF DIRECTORS



Ms. Khadija Mire
Appointed on 25 November 2011
Appointed as the Chairperson on 16th October



Eng. Abdulrazaq Adan Ali
P.S. Ministry of Trade - Former Chairman



Mr. Edwin Kinyua
Representing KWA Holding EA Limited



Ms. Mbatha Mbithi
Representing Industrial & Commercial Development Corporation



Dr. Jonathan Ciano
Chief Executive Officer



Mr. James R. Murigu
Appointed on 25 November 2011



Mr Bartholomew Ragalo
Appointed on 25 November 2011



Pauline W Kimotho
Company Secretary / Legal Officer

NOTICE OF THE AGM

NOTICE IS HEREBY GIVEN that the 32nd Annual General Meeting of the Company will be held on Tuesday, 11th December 2012 at the Kenyatta International Conference Centre (KICC) Amphitheatre Nairobi at 10.00 am to transact the following business:

ORDINARY BUSINESS

1. The Company Secretary to read the notice convening the meeting.
2. To receive, consider, and if thought fit adopt the Accounts for the year ended 30th June, 2012 together with the Directors' and Auditors' reports thereon.
3. To approve payment of a final dividend of Kshs 0.30 for each ordinary share of Kshs 5.00 par value on the issued share capital of the Company for the year ended 30 June 2012.
4. Election of Directors:
   a. In accordance with Article 100 of the Company's Articles of Association the Permanent Secretary Ministry of Trade retires by rotation and, being eligible, offers himself for re- election.
   b. In accordance with Article 100 of the Company's Articles of Association KWA Holding E A Limited retires by rotation and, being eligible, offers itself for re-election.
5. To confirm the Director's remuneration for the year ended 30th June 2012.
6. To note that Ernst & Young, having expressed their willingness, continue in office as auditors of the company in accordance with the provisions of section 159(2) of the Companies Act (Cap 486) and to authorize the Directors to fix their remuneration.

Special business

Ordinary resolutions

7. To consider and, if thought fit, to pass the following as an ordinary resolution:
   That the nominal share capital of the company be and is hereby increased from Kenya Shillings Two Billion (KShs. 2,000,000,000), divided into Three Hundred Million ordinary shares of Kenya Shillings Five (Kshs 5.00) each and Twenty Five Million Preference shares of Kenya Shillings twenty (Kshs 20)to Kenya Shilling Three Billion (KShs.3,000,000,000), by the creation of:
   Two Hundred Million (200,000,000) new ordinary shares of Kenya Shillings five (KShs. 5.00) each ranking pari passu in all respects with the existing ordinary shares in the capital of the company".

8. To consider and, if thought fit, to pass the following as an ordinary resolution:
   That subject to passing of resolution 7 above , the Directors are hereby authorized and directed that up to 100 million ordinary shares of Kenya Shillings 5.00 each in the capital be offered subject to any required regulatory approvals at a price to be determined by the Directors to and amongst the holders of the issued ordinary shares of Kenya Shillings 5.00 each in the capital of the company registered at the close of business on such date and at such price as shall be determined by the Directors and notified to the members through the press or otherwise in proportion to the members respective holdings in the issued share capital of the company, subject to the articles of association of the Company, at such rate and upon such terms as the directors shall think fit and that the Directors be and are hereby authorized to issue such shares and pursue the listing of such shares upon issue on the Main Investment Market Segment of the Nairobi Securities Exchange and to do all such things as may be necessary to give effect to this resolution and to deal with fractions of shares in such a manner as they think fit and subject to the Articles of Association of the Company.

9. To Consider and if approved to pass the following Ordinary Resolution:
That the Directors be and are hereby authorized to register and cross list the company's shares on the Uganda Securities Exchange, the Dar es Salaam Stock Exchange and the Rwanda Over the Counter Market and are authorized to do and effect all acts and things required to give effect to this resolution

Special Resolutions

10. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting Article 11 in its entirety and replacing it with the following new article:-

"Every person shall on allotment or transfer of any securities of the Company be entitled to have the securities credited to a security account held in their name and their name entered in the Register of Depositors by the Central Depository in accordance with and subject to the provisions of the CDS Act 2000 or any statutory modification or re-enactment thereof for the time being in force."

11. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting Article 11B in its entirety and replacing it with the following new article:-
"Where any securities of the Company are forfeited pursuant to these Articles of Association after being immobilized or dematerialized, the Company shall be entitled to transfer such securities to a securities account designated by the law or in the absence of such a law the securities account designated by the directors for this purpose."

12. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting Article 12 in its entirety and replacing it with the following new article:-
"Where a member has sold some of the shares registered in his name, he shall be entitled to have the balance reflected in his security account."

13. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting article 25 in its entirety and replacing it with
"Shares in the Company shall be transferred as between a transferor and transferee in accordance with and subject to the provisions of the CDS Act 2000 or any statutory modification or re-enactment thereof for the time being in force".

14. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting article 25A in its entirety.

15. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting article 27(a) and Article 27(b) in its entirety.

16. To consider and, if thought fit, to pass the following as a Special resolution.
That the articles of association of the company be altered by deleting article 128 in its entirety and replacing it with"

"Any dividend or refund or interest unclaimed for a period of more than three years from the date of declaration thereof shall be forfeited and shall be paid to the Unclaimed Financial Assets Authority."

By Order of the Board

Pauline Kimotho
Company Secretary

Notes:
In accordance with Article 100A, any member duly qualified to attend and vote at the meeting may by notice duly signed by him or her and delivered to the Company Secretary at the Head office, Yarrow Road off Nanyuki Road P.O. Box 73167 00200 Nairobi not less than three(3) and not more than(twenty one) 21 days before the date appointed for the annual general meeting ,give notice of his intention to propose any other person for election to the Board, such notice is to be accompanied by a notice signed by the person proposed of his or her willingness to be elected.

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the company to attend and vote on his/her behalf. A form may be obtained from the Company's website (www.uchumi.com) or from the Company's share registrar's, Funguo Registrars Limited, 17th Floor Uchumi House, Aga Khan Walk, P.O. Box 45519 – 00100 Nairobi. To be valid, a form of proxy must be duly completed and signed by the member and lodged at the offices of the Company's registrars not later than 10.00am on Friday 7th December 2012, failing which it will be invalid. In the case of a body corporate the proxy must be under its common seal.

A copy of this notice, proxy form and entire annual report and accounts may be viewed on the Company's website at www.uchumi.com or a printed copy obtained from the Company's share registrars, Funguo Registrars Limited upon request.

CHAIRMANS STATEMENT

I am delighted to present to all shareholders the Annual Report and Financial Statements of Uchumi Supermarkets Limited for the year ended 30th June 2012. While the operating environment in the Eastern African Region was very challenging, the Uchumi Group has on the fifth year after revival recorded positive performance and entrenched its presence in the Uganda and new entry in to Tanzania markets for growth and competitive positioning during the year.

THE REGIONAL ENVIRONMENT

Energy and fuel price increases led to rising double digit inflation and depreciation of local currencies in the East African region against major world currencies. This was further compounded by a food crisis caused by drought. The increased security concerns caused by terror groups with bases in Somalia also dampened the business environment. The financial crisis in the Eurozone, high borrowing interest rates and a slowdown in economic activity negatively impacted on private and public consumption, investments and exports from the region.

Consequently, these factors impacted adversely on customers' purchasing power. The average annual inflation in Kenya grew from 3.96% to 14.0% in the year. Uganda recorded 28.3% inflation, up from 4.8% in the previous year while Tanzania's grew from 3.5% to 15.0%. Gross Domestic Product (GDP) growth in the East African regions was at 4.2%, 5.6% and 6.4% in Kenya, Uganda and Tanzania respectively. These factors have continued to dampen the business climate through to current operating year.

Additionally, despite the economic slowdown, Uchumi registered growth in branch network in the East African region with our maiden hyper branch in Tanzania, an additional three branches in Uganda (initial preparation of two more on course) and one more opened in Kenya during the year ended June 2012. An additional branch in Ongata Rongai was opened post-balance sheet date in September 2012. These new branches while building the future robust group strength involved substantial initial non-recurring operating costs and their resultant full growth in sales revenues is envisaged from the 2012/2013 year of operation.

RESULTS FOR THE YEAR ENDED 30TH JUNE 2012

The Uchumi Group recorded Sh. 403 million in profits before tax compared to Sh 515 million in the previous year, a decline attributed to the non-recurring initial costs of growing new retail networks in the region, slower than expected sales growth in the new shopping malls that are expected to pick in the new operating year as the malls are now fully occupied in tenancy and the effect of the adverse environment as noted above. The growth in the retail network was funded from business operations. The operating costs were adversely precipitated by the above environmental factors and non-recurring initial costs of new locations. In spite of the lower than expected growth in the newly opened retail branches, the group sales revenue increased from KSh.10.77 billion to KSh.13.802 billion, a growth of 28.1% while sustaining the gross margin level at above 18% of sales. Additionally, the balance Sheet total assets grew by KShs 937 million to stand at KShs. 4.942 billion as at 30th June 2012 as a result of the performance registered during the year.

2012 DIVIDEND

There was a persistent dividend drought since 2002. However, in view of the successful turnaround, the Directors have recommended a comeback total dividend payout for the year ended 30th June 2012 of Kshs 0.30 per share (subject to with-holding tax where applicable) on the issued 266 million ordinary shares of Kshs 5 each. This will however be subject to approval by the shareholders at the Annual General Meeting scheduled for 11th December 2012.

The Board of Directors is responsible for the good governance of the Company and is accountable to the shareholders. The Board ensures that the Company is run in accordance with the law and the highest standards of business ethics. It is also responsible for building shareholders value through ensuring growth and profitability of the Company. In ensuring that proper standards of corporate governance are observed and maintained in the year the Board has established Board Committees.
The Board also meets regularly to appraise itself on the Company's operations and progress and advise and guide management accordingly.

The Company is keen on effectively equipping its directors. In the year under review four board members attended Corporate Governance training. Additionally three directors who joined the Board in November 2011 were oriented to the organization through a visit to some branches.

Board composition

The Board is made up of seven Board members, six non-executive directors and one executive director. Out of the six non-executive directors, three are institutional directors, and three are independent directors free from any business interest or other relationship that could influence the exercise of their personal independent judgment. The Board is responsible for the effective control of the Company's strategic, financial and operational issues.

The daily running of the business is delegated to the Chief Executive Officer together with the management of the Company.

Board Committees

The Board has three standing committees which meet regularly under the terms of reference set by the Board.
The Committees make recommendations to the Board on matters under their mandate. The Committees are the Audit Committee, the Staff and Administrative Matters Committee and the Strategies and Business Development Committee. The Committees are chaired by the non-executive directors.

a. Audit Committee:

The Committee comprises of four non-executive independent directors who are not involved in the day to day running of the business.
The Committee's main functions include among others: receive from management and after consideration advise the Group Board of Directors on matters relating to finance and assets/ liabilities; review the adequacy, scope, functions and resources of the internal audit function and ensure that it has the necessary authority to carry out its work; review the Company's annual budgets and recommend these to the Group's Board for approval.

The committee met thrice during the year under review.

The members of this Committee during the year under review were:

1. Mr. James Murigu- Chair
2. ICDC
3. KWA Holdings EA Ltd
4. PS Ministry of Trade.

b. Staff and administrative matters Committee

The Committee comprises of four non-executive independent directors and one executive director.
The Committee's main functions include: ensuring that the Company's Management is best able

to discharge mandate bestowed; review issues related to compensation of Uchumi staff members and the Group Board of Directors; inform the Board on retiring non executive directors and advise the Board on whether to support renomination of a retiring director.

The committee met once during the year under review.

The members of this Committee during the year under review were:

1. KWA Holdings EA Ltd- chair
2. ICDC
3. PS Ministry of Trade.
4. Ms Khadija Mire
5. Dr. Jonathan Ciano

c. Strategies and business development Committee

The Committee comprises of four non-executive independent directors and one executive director. The Committee's main functions include: review the Company's detailed strategic plans, including short-term priorities and recommend these to the Group Board for approval and; consider and approve for recommendation to the Group Board all business growth, branch expansion and business development plans within the strategic plans and budgets.

The committee met twice during the year under review.

The members of this Committee during the year under review were:

1. ICDC- chair
2. KWA Holdings EA Ltd
3. PS Ministry of Trade.
4. Mr. Bartholomew Ragalo
5. Dr. Jonathan Ciano

Directors' Emoluments and Loans

The total amount of emoluments paid to directors for services rendered during the year are disclosed in the notes to the financial statements. In the year no director was entitled to receive any benefit other than directors' allowances and amounts received under employment contracts for the executive director.

Board/Board Committees attendance

The Board and Board Committees hold regular meetings to discuss the Company's business, operations and performance. On occasion the Board holds special meetings as and of when the need arises. Details of attendance by non executive directors are as follows:

NAME OF DIRECTOR	MAIN BOARD	AUDIT COMMITTEE	STRATEGIES AND BUSINESS DEVELOPMENT	STAFF AND ADMINISTRATIVE MATTERS
NUMBER OF MEETINGS	2	3	2	1
Permanent Secretary Ministry of Trade	2	2	2	1
KWAL	2	3	2	1
ICDC	2	3	2	1
*Mr. James Murigu	1	1		
Dr. Jonathan Ciano	2	2	1	
*Mr. Bartholomew Ragalo	1	1		
*Ms. Khadija Mire	1			

Mr. James Murigu, Mr. Bartholomew Ragalo and Ms Khadija Mire joined the Board in November 2011

DIRECTORS SHAREHOLDING AS AT 30 JUNE 2012 NAME SHARES HELD

NAME	SHARES HELD
PS MIN. OF TRADE(GOK)	35,576,550
KWA HOLDINGS EA LTD	11,365,309
ICDC	7,288,472
JONATHAN CIANO	336,179
JAMES MURIGU	24,327
KHADIJA MIRE	2,900
BARTHOLOMEW RAGALO	-

Relations with shareholders

The Company is committed to ensuring that shareholders and the relevant authorities, Capital Markets Authority and the Nairobi Stock Exchange are provided with complete and timely information. To this end the Company releases its half year and annual performance reports through the media and furnishes the same to the Capital Markets Authority and the Nairobi Stock Exchange. The Company has retained the services of a shares registrar who in conjunction with the Company Secretary respond to all shareholders issues.

TOP 20 SHAREHOLDERS AS AT 30 JUNE 2012

SURNAME	NAMES	SHARES ALLOTED	%
GOVERNMENT OF KENYA (PS MINISTRY OF TRADE)		35,576,550	13.40
JAMAL	KARIM	20,064,716	7.56
KWA HOLDINGS E.A LIMITED		11,365,309	4.28
EQUITY NOMINEES LIMITED A/C 00111		10,923,900	4.12
INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORP		7,288,472	2.75
RAIKUNDALIA	SANJAY, UMESH, KANTILAL	5,000,000	1.88
GOODWILL(NAIROBI)LIMITED A/C K867		4,939,000	1.86
OLD MUTUALLIFE ASSURANCE COMPANY LTD		3,221,140	1.21
STANDARD CHARTERED NOMINEES A/C 9688		2,554,531	0.96
STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 953		2,300,000	0.87
MUMIAS SUGAR COMPANY LTD		2,216,383	0.84
CFC STANBIC NOMINEES A/C NR1373(		2,062,600	0.78
STANDARD CHARTERED NOMINEES.NON-REDS. A/C 9924		2,038,200	0.77
STANDARD CHARTERED NOMINEES NON-RESD. A/C KE8723		1,906,900	0.72
RAIKUNDALIA	SANJAI "A/C NEHA	1,853,566	0.70
STANDARD CHARTERED NOMINEES NON-RESD. A/C 9913		1,832,800	0.69
STANDARD CHARTERED NOMINEES A/C 1256E		1,829,650	0.69
PARSHOTAM	KOTECHA BHAVESH	1,689,215	0.64
CFC STANBIC NOMINEES LTD A/C NR103066(		1,684,200	0.63
KHAMAR	ASHISH UMAKANT	1,666,667	0.63

OUTLOOK INTO 2012/13

With prospects of economic growth in the coming year in the East African region, the company is expected to continue registering growth in retail network and profitability with crystallization of the "growth" phase of the turnaround strategy with the strategic positioning across the East African Region. Two new branches are expected to be open in Uganda, one in Tanzania and four in Kenya to competitively consolidate the Uchumi brand.

Finally, on behalf of the Board of Directors, management and staff of Uchumi Supermarkets, I wish to express my heartfelt gratitude to all our customers, the authorities in Kenya, Uganda and Tanzania and business partners for the continued support that has enabled us progressively grow and realize our aspirations.

May you all have happy holidays and a prosperous new operating year 2013.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES



Kericho branch at a children's home, Boito



Mombasa Road - Kwetu childrens home



Sarit Hyper - Junior Shelter Gachie

Uchumi continues its strong belief of giving back to the community as highlighted in the company's Corporate Social Responsibility value: We value our community and so we try to give back as much as possible through different corporate social responsibility initiatives.

Ongoing Initiatives

At Uchumi we acknowledge the support of Kenyans over the years and endeavor to give back to the community through varied initiatives. We have supported and continue to support programmes in health care, education, environment and wildlife conservation, human rights and poverty eradication.

Over the years we have supported and participated in the Standard Chartered, Ndakaini Run for Water, Run for life and Safaricom LEWA marathon as well as KWS Hell's Gate Wheelbarrow race. Not only are these activities for a good cause, they also are enjoyable and healthy for our staff members.

We have a long standing partnership with Thomas Barnados Children's home, and constantly support KENWA, REDCROSS and TAPWAK fund drives. This we do through the collection tins situated in various branches.

We also partner with organizations and individuals such as the Orione Centre who supply fresh vegetables for sale thus giving the children's home a means to earn an income to supplement its expenses.

Intermittent Initiatives and Disaster Response

In the recent past, Kenya has experienced a number of disasters that have called for immediate response from corporate and individual citizens. These have included drought, floods, landslides, famine and disease. The company is dedicated to assisting East Africans when it is called upon to do so.

Be Your Brother's Keeper (BYBK) a fund raising drive in 2011, collected Kshs. 2.75M towards food and medicine for starving Kenyans in Northern Kenya. BYBK fund drive coincided with the national campaign – Kenyans for Kenya.

Uchumi is devoted to the plight of children. We have participated in activities that have raised the standards of living for children including Nairobi Hospital – Charity heart surgery and University of Nairobi students.

Uchumi Christmas Initiatives

Every year, the company allots part of its Christmas campaign budget to CSR activities and ensures that every branch undertakes an activity in its region to share the joy of Christmas. Last year (2011), students of Nakuru Special School for the Hearing Impaired received beds, mattresses and bedding.

All shops in Nairobi and those in upcountry each chose an institution to visit and interact with different people as well as give material support to the institutions. Some of the institutes visited include among others: Kwetu Children's Home (Nairobi), Charred Home(Nairobi), Abbey Home (Kiambaa) among others.

Eng. ABDULRAZAQ ADAN ALI
CHAIRMAN

COMPANY INFORMATION

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

SECRETARY

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

The directors submit their report and the audited financial statements for the year ended 30 June 2012 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 20 and 23, respectively.

4. DIVIDEND

The directors have recommended for approval by the shareholders a first and final dividend of KShs 0.30 per ordinary share (2011: Nil).

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; Retired as the chairman on 16 October 2012
Ms. Khadija Mire	-	Appointed on 25 November 2011; Appointed as the new chairman on 16 October 2012
Mr. Edwin Kinyua	-	Representing KWA Holdings EA Ltd
Ms. Mbatha Mbithi	-	Representing Industrial & Commercial Development Corporation
Dr. Jonathan Ciano	-	Chief Executive Officer
Mr. James Kabuga	-	Retired on 25 November 2011
Mr. James R. Murigu	-	Appointed on 25 November 2011
Mr. Jan Mohamed	-	Retired on 23 January 2012
Mr. Kungu Gatabaki	-	Retired on 3 October 2011
Mr Bartholomew Ragalo	-	Appointed on 25 November 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

21 November 2012

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 19 to 64, which comprise the statement of financial position of the Group and the Company as at 30 June 2012 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 2012 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.

Nairobi

28 November 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 KShs'000	2011 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(a)	2,114,777	1,438,734
Investment properties	4	1,000,000	750,000
Intangible asset	5	15,899	17,193
Prepaid operating lease rentals	6	19,738	20,013
Deferred tax asset	8.1	197,328	381,130
		3,347,742	2,607,070
CURRENT ASSETS			
Inventories	9	1,067,959	838,891
Trade and other receivables	10	388,424	329,095
Tax recoverable	8.1	5,300	2,356
Short term deposits	26	33,033	73,033
Bank and cash balances	26	99,430	154,275
		1,594,146	1,397,650
TOTAL ASSETS		**4,941,888**	**4,004,720**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,327,133	1,327,133
Reserves	13	1,330,677	952,032
		2,657,810	2,279,165
NON-CURRENT LIABILITIES			
Term loans	14	80,309	183,368
CURRENT LIABILITIES			
Trade and other payables	15	1,631,350	1,110,984
Deferred revenue	16	17,097	47,688
Tax payable	8.1	-	2,263
Amounts due to related parties	11	12,879	10,785
Term loans	14	104,843	137,200
Bank overdraft	26	437,600	233,267
		2,203,769	1,542,187
TOTAL EQUITY AND LIABILITIES		**4,941,888**	**4,004,720**

The financial statements were approved by the Board of Directors on 16 October 2012 and were signed on its behalf by:-

.....)

.....) Directors

	Note	2012 KShs'000	2011 KShs'000
REVENUE			
Sales	17	13,802,191	10,770,961
Income from redemption of loyalty points	16	116,339	69,767
		13,918,530	10,840,728
COST OF SALES	18	(11,407,227)	(8,943,513)
		2,511,303	1,897,215
CHANGE IN VALUE OF INVESTMENT PROPERTIES	4	250,000	160,721
OTHER INCOME	19	378,407	290,840
		3,139,710	2,348,776
EXPENSES:-			
Administration and establishment	20	(2,572,249)	(1,727,672)
Selling and distribution	21	(139,036)	(102,641)
		(2,711,285)	(1,830,313)
PROFIT FROM OPERATING ACTIVITIES		428,425	518,463
FINANCE COSTS	22	(25,082)	(3,630)
PROFIT BEFORE TAX	23	403,343	514,833
INCOME TAX EXPENSE	8.2	(129,366)	(124,408)
PROFIT FOR THE YEAR		273,977	390,425
ATTRIBUTABLE TO:			
Owners of the parent		273,977	390,425
EARNINGS PER SHARE			
Basic and diluted – KShs.	24	1.03	1.47

	Note	2012 KShs'000	2011 KShs'000
PROFIT FOR THE YEAR		273,977	390,425
OTHER COMPREHENSIVE INCOME:			
Revaluation of land and buildings		190,000	531,623
Deferred tax effect on revaluation surplus	8.1	(57,000)	(159,487)
Exchange differences on translation of foreign entity		(28,332)	(17,015)
Other comprehensive income for the year, net of taxes		104,668	355,121
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		378,645	745,546
ATTRIBUTABLE TO:			
Owners of the parent		378,645	745,546

STATEMENT OF FINANCIAL POSITION OF THE COMPANY
AS AT 30 JUNE 2012

	Note	2012 KShs'000	2011 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(b)	1,650,190	1,230,055
Intangible asset	5	15,010	16,356
Prepaid operating lease rentals	6	19,738	20,013
Investment in subsidiaries	7	205,129	205,129
Deferred tax asset	8.1	193,553	373,319
		2,083,620	1,844,872
CURRENT ASSETS			
Inventories	9	802,063	758,002
Trade and other receivables	10	303,142	275,338
Amounts due from related parties	11	534,656	336,530
Tax recoverable	8.1	255	-
Short term deposits	26	33,033	73,033
Bank and cash balances	26	58,787	87,157
		1,731,936	1,530,060
TOTAL ASSETS		3,815,556	3,374,932
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,327,133	1,327,133
Reserves	13	831,152	455,613
		2,158,285	1,782,746
NON CURRENT LIABILITIES			
Term loans	14	80,309	183,368
CURRENT LIABILITIES			
Trade and other payables	15	1,016,442	977,615
Deferred revenue	16	15,168	47,688
Amount due to related parties	11	12,879	10,785
Tax payable	8.1	-	2,263
Term loans	14	104,843	137,200
Bank overdraft	26	427,630	233,267
		1,576,962	1,408,818
TOTAL EQUITY AND LIABILITIES		3,815,556	3,374,932

The financial statements were approved by the Board of Directors on 16 October 2012 and were signed on its behalf by:-

.....)

.....) Directors

	Note	2012 KShs'000	2011 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		403,343	514,833
Adjustments for:			
Depreciation of property, plant and equipment	3(a)	190,802	79,069
Change in fair value of investment properties	4	(250,000)	(160,721)
Amortisation of prepaid operating lease rentals	6	275	271
Amortisation of intangible asset	5	13,995	14,371
Reversal of excess interest capitalised		-	(5,314)
Profit on disposal of property, plant and equipment		(1,806)	(840)
Operating profit before working capital changes		356,609	441,669
Increase in trade and other receivables		(59,329)	(69,987)
Increase/ (decrease) in amounts due to related parties		2,094	(3,648)
Increase in inventories		(229,068)	(129,501)
Increase in trade and other payables		520,366	19,849
Decrease in deferred revenue		(30,591)	(92)
Net cash flows from operations		560,081	258,290
Income tax paid	8.1	(14,527)	(10,781)
Net cash generated from operating activities		545,554	247,509
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(a)	(715,542)	(300,073)
Proceeds from disposal of plant and equipment		2,288	1,307
Additions to investment properties	4	-	(9,279)
Purchase of intangible asset	5	(12,663)	(7,962)
Net cash used in investing activities		(725,917)	(316,007)
FINANCING ACTIVITIES			
Repayments of long term borrowing		(135,416)	(131,714)
Net cash used in financing activities		(135,416)	(131,714)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(315,779)	(200,212)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(5,959)	211,268
Effects of exchange rate changes on opening net investment in foreign entity		16,601	(17,015)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	(305,137)	(5,959)

	Note	2012 KShs'000	2011 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		371,905	333,046
Adjustments for:			
Depreciation of property, plant and equipment	3 (b)	120,118	71,966
Amortisation of prepaid operating lease rentals	6	275	271
Profit on disposal of property, plant and equipment		(1,806)	(840)
Reversal of excess interest capitalized			(5,314)
Amortisation of intangible asset	5	13,594	13,921
Operating profit before working capital changes		504,086	413,050
Increase in trade and other receivables		(27,804)	(59,649)
Increase in related parties balances		(198,126)	(224,499)
Increase in inventories		(44,061)	(122,559)
Increase in trade and other payables		38,827	7,658
Decrease in deferred revenue		(32,520)	(92)
Cash flows from operations		240,402	13,909
Tax paid	8.1	(7,024)	(754)
Net cash generated from operating activities		233,378	13,155
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(b)	(350,735)	(98,309)
Proceeds from disposal of property and equipment		2,288	1,307
Purchase of intangible asset	5	(12,248)	(6,611)
Net cash used in investing activities		(360,695)	(103,613)
FINANCING ACTIVITIES			
Repayments of long term borrowing		(135,416)	(131,714)
Net cash used in financing activities		(135,416)	(131,714)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(262,733)	(222,172)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(73,077)	149,095
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	(335,810)	(73,077)

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 2012 were authorised for issue by the directors on 16 October 2012.

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 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, judgments 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 group 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 judgment as to whether the inventory item can be used as an input in production or is in saleable condition.

Allowances for credit losses

The group 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 and amended IFRS and IFRIC interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations effective as of 1 July 2011:

- IAS 24 Related party disclosures (Revised) – 1 January 2011
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment) – 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – 1 July 2010
- Improvements to IFRSs (issued in May 2010)
- IFRS 1 First-time Adoption of international Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment).
- IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (amendment) effective 1 February 2010

2. ACCOUNTING POLICIES (Continued)

e) New and amended IFRS and IFRIC interpretations (continued)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Disclosures (Revised)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The amendment had no impact, as the definitions were already applied according to these amendments and the group is not government related.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides 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. The amendment had no impact on the financial statements of the group as the group does not have any defined benefit plans.

IFRS 1 First-time Adoption of international Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment).

The amendment is 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. 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. This will have no impact on the group, as it has no operations in hyperinflationary economies.

IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets (Amendment)

The amendment is 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.
  This amendment has no impact on the group.

Improvements to IFRSs

In May 2010, the International Accounting Standards Board (IASB) issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the group:

2. ACCOUNTING POLICIES (Continued)

e) New and amended IFRS and IFRIC interpretations (continued)

Improvements to IFRSs (continued)

IFRS 7 Financial Instruments – Disclosures (effective 1 January 2011) – Clarification of Disclosures:
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements (effective 1 January 2011) - 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.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective. The group expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the group's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the group is still assessing the possible impact.

IAS 1 Financial statements presentation - Presentation of items in Other Comprehensive Income (Amendment)
The amendment is effective for annual periods beginning on or after 1 July 2012 and requires that items of other comprehensive income be grouped in items that would be reclassified (or 'recycled') to profit or loss at a future point and items that will never be reclassified. The amendment does not change the nature of items that are currently recognised in OCI, nor does it impact the determination of whether items of OCI are reclassified through profit or loss in future periods.

IAS 12 Income taxes - Deferred taxes: Recovery of underlying assets (Amendment)
The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value be determined on the basis that its carrying amount will be recovered through sale, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. In addition, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

IAS 19 Employee benefits (Revised)
The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. Past service costs as a result of plan amendments are to be recognized immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. Although the group will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed.

2. ACCOUNTING POLICIES (Continued)

e) New and amended IFRS and IFRIC interpretations (continued)

Standards issued but not yet effective (continued)

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the group as the company does not have any investments in associates and interests in joint arrangements.

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IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after 1 January 2014.

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts". This means that the right of set-off:

- must not be contingent on a future event; and,
- must be legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and,
    - the event of insolvency or bankruptcy of the entity and all of the counterparties.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Offsetting Financial Assets and Financial Liabilities.

The amendment clarifies the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the group is still in the process of determining how it will impact the note disclosures upon adoption.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's 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 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in 2013.

The group is currently assessing the impact of adopting IFRS 9. However, since 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 and amended IFRS and IFRIC interpretations (continued)

Standards issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new definition of control that applies to all entities.

Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

And

- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control).
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control.
- Consolidation is required until such time as control ceases, even if control is temporary.

The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a group. Effective for annual periods beginning on or after 1 January 2013. The group is currently assessing the impact of adopting IFRS 10.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 and SIC-13. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.
- Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity accounting method.

2. ACCOUNTING POLICIES (Continued)

e) New and amended IFRS and IFRIC interpretations (continued)

Standards issued but not yet effective (continued)

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the group as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Clarifications on certain aspects are also provided. The group will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the group on 1 January 2013.

Improvements to IFRSs (issued in May 2012)

The International Accounting Standards Board has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the group. The effective date for the amendments is for annual periods beginning on or after 1 January 2013.

IAS 1 Presentation of Financial Statements: Clarification of the requirements for comparative information

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. In addition, the opening statement of financial position (known as the third balance sheet) must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position.

2. ACCOUNTING POLICIES (Continued)

e) New and amended IFRS and IFRIC interpretations (continued)

Improvements to IFRSs (issued in May 2012) (continued)

The opening statement would be at the beginning of the preceding period. This may have an impact in future years, if the group discloses voluntary additional comparative information, or if a third statement of financial position needs to be presented.

IAS 16 Property, Plant and Equipment: Classification of servicing equipment

This amendment clarifies when certain assets are property, plant and equipment or inventory. Major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. This will have no impact on the group as the group does not keep spare parts.

f) Revenue recognition

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

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

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

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

g) Customer loyalty program

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

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

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.

2. ACCOUNTING POLICIES (Continued)

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 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.

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 profit or loss. A revaluation deficit is recognised in 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 years
Plant and machinery	5 years
Equipment and motor vehicles	6.67 years, 5 years and 4 years (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 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

2. ACCOUNTING POLICIES (Continued)

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.

j) Foreign currencies

The consolidated financial statements are presented in Kenya Shillings, which is the group'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 profit or loss.

k) Financial instruments

Financial assets and liabilities are recognized 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 group 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 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

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.

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

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.

2. ACCOUNTING POLICIES (Continued)

l) Tax (continued)

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.

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.

2. ACCOUNTING POLICIES (Continued)

n) Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the group 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 group 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.

p) 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.

2. ACCOUNTING POLICIES (Continued)

p) Leases (continued)

Group as a lessee (continued)

Prepaid operating lease rentals paid are recognised as assets and are subsequently amortised over the lease period. 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.

q) 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. Amortisation begins when the asset is available for use. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposable proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

r) Cost of sales

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

s) 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.

t) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently 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.

2. ACCOUNTING POLICIES (Continued)

u) 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.

v) 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 2012:	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 2011	1,096,882	271,556	517,994	726,804	2,613,236
Increase on revaluation	171,333	-	-	-	171,333
Additions	-	46,258	331,887	337,397	715,542
Disposals	-	(1,107)	(29,889)	(66,688)	(97,684)
Exchange differences	-	(16,276)	(653)	(7,116)	(24,045)
At 30 June 2012	1,268,215	300,431	819,339	990,397	3,378,382
Comprising:					
Cost	6,882	300,431	819,339	990,397	2,117,049
Valuation	1,261,333	-	-	-	1,261,333
	1,268,215	300,431	819,339	990,397	3,378,382
DEPRECIATION					
At 1 July 2011	25,549	215,644	326,048	607,261	1,174,502
Eliminated on revaluation	(18,667)	-	-	-	(18,667)
Charge for the year	19,000	39,547	51,605	80,650	190,802
Disposals	-	(1,107)	(29,889)	(66,206)	(97,202)
Exchange differences	-	1,406	11,895	869	14,170
At 30 June 2012	25,882	255,490	359,659	622,574	1,263,605
NET CARRYING AMOUNT					
At 30 June 2012	1,242,333	44,941	459,680	367,823	2,114,777

In the opinion of the directors, there was no impairment of items in property, plant and equipment.
Buildings and freehold land were valued in July 2012 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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 in 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 CARRYING AMOUNT					
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 of items in property, plant and equipment.

Buildings and freehold land were valued in August 2010 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 2012:	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 2011	1,096,882	236,476	325,850	654,621	2,313,829
Increase on revaluation	171,333	-	-	-	171,333
Additions	-	34,902	103,600	212,233	350,735
Disposals	-	(1,107)	(29,889)	(66,688)	(97,684)
At 30 June 2012	1,268,215	270,271	399,561	800,166	2,738,213
Comprising:					
Cost	6,882	270,271	399,561	800,166	1,476,880
Valuation	1,261,333	-	-	-	1,261,333
	1,268,215	270,271	399,561	800,166	2,738,213
DEPRECIATION					
At 1 July 2011	25,549	186,160	286,657	585,408	1,083,774
Eliminated on revaluation	(18,667)	-	-	-	(18,667)
Charge for the year	19,000	35,621	19,003	46,494	120,118
Disposals	-	(1,107)	(29,889)	(66,206)	(97,202)
At 30 June 2012	25,882	220,674	275,771	565,696	1,088,023
NET CARRYING AMOUNT					
At 30 June 2012	1,242,333	49,597	123,790	234,470	1,650,190

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

Buildings and freehold land were valued in July 2012 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. (b) PROPERTY, PLANT AND EQUIPMENT (Continued)
(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 CARRYING AMOUNT					
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 of items in property, plant and equipment.

Buildings and freehold land were valued in August 2010 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		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Balance brought forward	750,000	580,000	-	-
Change in fair value during the year	250,000	160,721	-	-
Additions	-	9,279	-	-
At 30 June	1,000,000	750,000	-	-

Investment properties relate to two pieces of land held by the company's subsidiary, Kasarani Mall Limited, under long-term lease arrangements with the Government of Kenya with Kasarani Mall Limited as the lessee. The land was valued at KShs.1 billion by Kiragu & Mwangi Limited, accredited independent valuers, as at 30 June 2012. The present value of the ground rent obligations is immaterial and thus, the valuation amount of KShs.1 billion 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		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
COST				
Balance brought forward	45,568	37,702	44,313	37,702
Additions	12,663	7,962	12,248	6,611
Exchange difference	57	(96)	-	-
At 30 June	58,288	45,568	56,561	44,313
AMORTISATION				
Balance brought forward	28,375	14,036	27,957	14,036
Amortisation for the year	13,995	14,371	13,594	13,921
Exchange difference	19	(32)	-	-
At 30 June	42,389	28,375	41,551	27,957
NET CARRYING AMOUNT				
At 30 June	15,899	17,193	15,010	16,356

Intangible asset relate to the computer software acquisition costs.

6. PREPAID OPERATING LEASE RENTALS

	Group		Company	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Balance brought forward	20,013	20,284	20,013	20,284
Amortisation for the year	(275)	(271)	(275)	(271)
At 30 June	19,738	20,013	19,738	20,013

Prepaid operating lease relate to one piece of land held by the company under a long term lease arrangement, with the Government of Kenya where the company is a lessee. The remaining lease period is 45 years.

7. INVESTMENTS IN SUBSIDIARIES

	Company			
	Country of incorporation	Shareholding	2012 KShs'000	2011 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	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
8. TAXES				
8.1 STATEMENT OF FINANCIAL POSITION				
INCOME TAX RECOVERABLE/(PAYABLE)				
Balance brought forward	93	4,101	(2,263)	115
Tax charge for the year	(6,963)	(15,024)	(6,963)	(5,004)
Prior year (under)/overprovision	-	(1,435)	2,457	1,872
Tax paid during the year	14,527	10,781	7,024	754
Exchange difference	(2,357)	1,670	-	-
At 30 June	5,300	93	255	(2,263)
Tax recoverable	5,044	2,356	-	-
Tax payable	256	(2,263)	255	(2,263)
	5,300	93	255	(2,263)

DEFERRED TAX ASSET

Movements in deferred tax during the year were as follows;

Group At 30 June	2011 KShs'000	Income statement KShs'000	Equity KShs'000	2012 KShs'000
Deferred tax asset is attributable to the following items:				
Tax losses carried forward	468,001	(126,111)	-	341,890
Excess of depreciation over tax allowances	50,770	(4,973)	-	45,797
Other temporary differences	21,846	4,282	-	26,128
Revaluation reserve	(159,487)	-	(57,000)	(216,487)
	381,130	(126,802)	(57,000)	197,328

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. TAXES (Continued)

8.1 STATEMENT OF FINANCIAL POSITION (Continued)

DEFERRED TAX ASSET (Continued)

	2011 KShs'000	Income statement KShs'000	Equity KShs'000	2012 KShs'000
Company				
Tax losses carried forward	468,001	(126,111)	-	341,890
Excess of depreciation over tax allowances	49,454	(3,657)	-	45,797
Other temporary differences	15,351	7,002	-	22,353
Revaluation reserve	(159,487)	-	(57,000)	(216,487)
	373,319	(122,766)	(57,000)	193,553

	Group 2012 KShs'000	2011 KShs'000	Company 2012 KShs'000	2011 KShs'000
8.2 INCOME STATEMENT				
Deferred tax (charge)/credit	(126,802)	(107,949)	(122,766)	(107,950)
Corporation tax	(6,963)	(15,024)	(6,963)	(5,004)
Prior year (over) / under provision	4,399	(1,435)	363	1,872
	(129,366)	(124,408)	(129,366)	(111,082)
Accounting profit before tax	403,343	514,833	371,905	333,046
Tax calculated at tax rate of 30%	(121,003)	(154,450)	(111,572)	(99,913)
Tax effects on items not deducted for tax	(8,363)	(11,692)	(17,794)	(32,298)
Originating and reversing temporary differences	-	41,734	-	21,129
	(129,366)	(124,408)	(129,366)	(111,082)
9. INVENTORIES				
Food	437,313	331,704	328,260	295,004
Non-food	498,749	483,675	428,889	440,627
Other	131,897	23,512	44,914	22,371
	1,067,959	838,891	802,063	758,002

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	142,328	57,931	114,075	44,762
Prepayments and other receivables	246,096	271,164	189,067	230,576
	388,424	329,095	303,142	275,338
Aging analysis of trade receivables:				
Neither past due nor impaired	116,533	38,999	94,194	29,524
Past due but not impaired: 30 to 60 days	25,795	18,932	19,881	15,238
Impaired: Over 60 days	28,854	24,818	24,698	22,565
	171,182	82,749	138,773	67,327
Allowance for credit losses	(28,854)	(24,818)	(24,698)	(22,565)
	142,328	57,931	114,075	44,762
Movement in allowance for credit losses:				
At 1 July	24,818	20,695	22,565	17,149
Income statement movement(note 19 and 20)	4,036	4,123	2,133	5,416

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	
	2012 KShs'000	2011 KShs'000
11. i) Amounts due from related parties:		
Uchumi Supermarkets (Uganda) Limited	90,551	9,413
Uchumi Supermarkets (Tanzania) Limited	312,942	204,509
Kasarani Mall Limited	131,163	122,608
	534,656	336,530

11. ii) Amounts due to related parties:

	Group		Company	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Industrial and Commercial Development Corporation (ICDC)	369	369	369	369
Kenya Wine Agencies Limited (KWAL)	12,510	10,416	12,510	10,416
	12,879	10,785	12,879	10,785

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.

11. RELATED PARTY TRANSACTIONS (Continued)

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

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Purchases from KWAL	98,427	103,076	98,427	103,076
Purchases from ICDC	-	369	-	369

11. iii) Senior management compensation:

Short term employee benefits	52,072	41,407	45,022	35,957
Post employment benefits	4,613	3,013	4,613	3,013
	56,685	44,420	49,635	38,970

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 2012, the group did not record any impairment of receivables relating to amounts owed by related parties (2011: 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	2012	2011
	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 (2011: 265,426,614) ordinary shares of Shs.5 each	1,327,133	1,327,133

13. RESERVES

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Accumulated losses	(392,653)	(677,472)	(959,521)	(1,212,902)
Share premium	1,090,015	1,090,015	1,090,015	1,090,015
Revaluation reserve	700,658	578,500	700,658	578,500
Translation reserve	(67,343)	(39,011)	-	-
	1,330,677	952,032	831,152	455,613

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.

14. LOANS

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Borrowings are made up as follows:				
a) Non-current				
Term loan	80,309	183,368	80,309	183,368
b) Current				
Bank overdraft	437,600	233,267	427,630	233,267
Term loan	104,843	137,200	104,843	137,200
	542,443	370,467	532,473	370,467
	622,752	553,835	612,782	553,835
Maturity profile of non-current borrowings				
Between 1 and 2 years	80,309	104,469	80,309	104,469
Between 2 and 5 years	-	78,899	-	78,899
	80,309	183,368	80,309	183,368
Term Loan				
Non-current				
Government of Kenya	80,309	183,368	80,309	183,368
	80,309	183,368	80,309	183,368
Current				
Centum Investment Company Limited	-	40,000	-	40,000
Government of Kenya	104,843	97,200	104,843	97,200
	104,843	137,200	104,843	137,200

14. LOANS (Continued)

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 has been fully repaid. 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:

	2012	2011
Term loan	9.50%	9.50%
Bank overdrafts	14.50%	14.34%

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Trade payables	1,444,094	995,040	923,156	883,775
Accrued expenses	77,881	75,849	68,887	56,515
Other payables	109,375	40,095	24,399	37,325
	1,631,350	1,110,984	1,016,442	977,615

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

16. DEFERRED REVENUE

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 July	47,688	47,780	47,688	47,780
Deferred during the year	85,748	69,675	83,819	69,675
Released to the income statement	(116,339)	(69,767)	(116,339)	(69,767)
At 30 June	17,097	47,688	15,168	47,688

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

17. SALES

	Group		Company	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Food	9,190,868	6,934,877	7,935,897	6,374,229
Personal care	2,702,045	2,142,710	2,324,650	1,931,573
General merchandise	1,709,254	1,528,652	1,444,489	1,367,659
Textiles	200,024	164,722	144,673	120,980
	13,802,191	10,770,961	11,849,709	9,794,441

18. COST OF SALES

	Group		Company	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Food	7,658,306	5,789,360	6,663,826	5,311,668
Personal care	2,230,663	1,772,451	1,930,506	1,619,723
General merchandise	1,375,046	1,205,832	1,164,751	1,085,841
Textiles	143,212	175,870	100,743	142,959
	11,407,227	8,943,513	9,859,826	8,160,191

19. OTHER INCOME

Promotions income	64,835	67,018	64,834	58,357
Profit on disposal of property, plant and equipment	1,806	840	1,806	840
Speciality shop income	207,411	155,407	141,005	127,208
Decrease in allowance for credit losses	-	1,291	-	-
Miscellaneous income	96,133	66,284	96,133	61,005
Interest receivable	8,222	-	8,222	-
	378,407	290,840	312,000	247,410

20. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs (Note 27)	914,078	589,141	666,195	526,133
Establishment costs	875,741	604,294	640,814	519,075
Computer expenses	23,392	30,562	20,364	29,179
Motor running expenses	39,047	30,008	37,231	30,008
Auditors' remuneration	10,800	8,250	7,000	6,050
Consultancy fees	39,490	41,401	36,181	38,957
Increase in allowance for credit losses	4,036	5,414	2,133	5,416
Credit card commission	39,899	33,030	39,409	33,030
Bank charges and commission	32,401	10,532	30,394	8,806
Amortisation of intangible asset	13,995	14,371	13,594	13,921
Amortisation of operating lease rentals	275	271	275	271
Depreciation of property and equipment	190,802	79,069	120,118	71,966
General expenses	388,293	281,329	288,622	241,572
	2,572,249	1,727,672	1,902,330	1,524,384

21. SELLING AND DISTRIBUTION

Marketing expenses	139,036	102,641	118,905	90,367

22. FINANCE COSTS

Interest – unsecured loans	25,082	3,535	25,082	3,535
Interest – secured loans	-	95	-	95
	25,082	3,630	25,082	3,630

23. PROFIT BEFORE TAX

	Group		Company	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
The profit before tax is stated after charging:-				
Depreciation of property, plant and equipment	190,802	79,069	120,118	71,966
Amortisation of intangible asset	13,995	14,371	13,594	13,921
Amortisation of operating lease rentals	275	271	275	271
Auditors' remuneration	10,800	8,250	7,000	6,050
Directors' emoluments:				
-As executives	19,236	18,339	19,236	18,339
-As directors	905	320	905	320
And after crediting:				
Gain on disposal of property, plant and equipment	1,806	840	1,806	840

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24. 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	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Profit for the year	273,977	390,425	242,543	221,964
Number of ordinary shares	265,427	265,427	265,427	265,427
Profit per share – KShs.	1.03	1.47	0.91	0.84

25. DIVIDEND PROPOSED

Proposed for approval at the annual general meeting (not recognised as a liability as at 30 June 2012).

	Group	
	2012 KShs'000	2011 KShs'000
Final proposed dividend per share KShs 0.30 (2011- Nil)	79,628	-

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	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Bank and cash balances	99,430	154,275	58,787	87,157
Short term deposits	33,033	73,033	33,033	73,033
Bank overdraft	(437,600)	(233,267)	(427,630)	(233,267)
	(305,137)	(5,959)	(335,810)	(73,077)

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 2.5%-15% (2011: 3.5%).

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	
	2012	2011	2012	2011
	KShs'000	KShs'000	KShs'000	KShs'000
Salaries	543,090	513,908	375,086	458,930
Medical	27,696	22,474	22,109	19,819
Pension	30,587	3,013	26,915	3,013
Other	312,705	49,746	242,085	44,371
	914,078	589,141	666,195	526,133

28. SEGMENT INFORMATION

	Kenya KShs '000	Uganda KShs '000	Tanzania KShs '000	Group KShs '000
Year ended 30 June 2012:				
Sales	11,849,709	1,592,186	360,296	13,802,191
Profit/(loss) before tax	621,909	(75,857)	(142,709)	403,343
Current assets	1,731,936	309,007	87,860	1,594,146
Non-current assets	3,083,620	304,426	164,821	3,347,742
Total segment assets	4,815,556	613,433	252,681	4,941,888
Current liabilities	1,708,125	603,310	415,257	2,203,769
Non-current liabilities	80,309	-	-	80,309
Total segment liabilities	1,788,434	603,310	415,257	2,284,078
Year ended 30 June 2011:				
Sales	9,794,441	976,520	-	10,770,961
Profit 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

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.

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 2012 are disclosed under note

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 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 2012 is made up as follows:

	Group		Company	
	2012	2011	2012	2011
Bank balance	99,430	154,275	58,787	87,157
Short term deposits	33,033	73,033	33,033	73,033
Trade receivables	142,328	57,931	114,075	44,762
Amounts due from related parties	-	-	534,656	336,530
	274,791	**285,239**	**740,551**	**541,482**

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 2.5%-15% (2011: 3.5%).

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:

	2012 KShs '000	2011 KShs '000
Share capital	1,327,133	1,327,133
Reserves	1,330,677	952,032
	2,657,810	2,279,165

31. CAPITAL COMMITMENTS

There were no contracted capital commitments as at 30 June 2012

32. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group and company as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2012 KShs'000	2011 KShs'000	2012 KShs'000	2011 KShs'000
Not later than one year	469,557	237,400	354,692	218,941
Later than one year and not later than five years	1,094,601	831,661	651,137	831,662
Later than five years	1,084,889	405,116	673,395	405,116
	2,649,047	1,474,177	1,679,224	1,455,719

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

33. CONTINGENT LIABILITIES

On 2 July 2009, following a VAT compliance check covering the period January 2006 to December 2008, Kenya Revenue Authority (KRA) raised a tax assessment on Uchumi Supermarkets Limited of KShs.23,486,955 being tax of KShs.15,801,910 and interest and penalty thereon of KShs.7,685,045. In year 2010, following discussions with KRA, the assessment was amended to KShs. 15,286,902 being tax of KShs. 11,112,328 and interest and penalty thereon of KShs. 4,174,574. In year 2010, the company paid the principal and applied for the waiver of the interest and penalty. The directors are of the opinion that the waiver will be granted and thus, no liability has been recognised in these financial statements.

Uchumi Supermarkets (Uganda) Limited received a notice of assessment in the previous year from Uganda Revenue Authority amounting to KShs.75.8 million which relates to a variance noted between the purchases included in the financial statements and those declared in the returns for the years 2004 to 2008. The company objected to this assessment since it could support the disallowed expenses and, therefore, no provision has been made in these financial statements.

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