

ANNUAL REPORT & FINANCIAL STATEMENTS 2016



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| CORPORATE INFORMATION |

DIRECTORS

Dr. Catherine Ngahu	-	Chairperson - Appointed 27 November 2015
Dr. Julius Kipngetich	-	Chief Executive Officer - Appointed 3 August 2015
Principal Secretary, Ministry of Trade and Industry	-	Represented by Dr. Chris Kiptoo
Mr. Timothy Mwaniki Kabiru	-	Appointed 23 May 2016
Mr. John Karani Ndiwa	-	Appointed 9 September 2016
Mr. Louis Onyango Otieno	-	Appointed 27 November 2015
Ms. Margaret Kositany	-	Appointed 25 March 2015
Ms. Glory Mukiri Kiogora	-	Appointed 9 September 2016
Industrial and Commercial Development Corporation	-	Represented by Mr. Dismas J. Oyieko w.e.f 24 March 2016 replacing Ms. Faith Nene - Resigned 23 March 2016
Ms. Khadija Mire	-	Retired December 2015
Mr. Samuel Njuguna Kimani	-	Resigned 23 May 2016
Mr. Polycarp Igathe	-	Resigned 23 March 2016
Mr. James Ruhii Murigu	-	Resigned August 2015
Mr. Bartholomew Ragalo	-	Retired December 2015
Principal Secretary, Ministry of Commerce and Tourism	-	Represented by Dr. Ibrahim Mohamed. Replaced by Principal Secretary, Ministry of Trade and Industry
Ms. Mbatha Mbithi	-	Resigned July 2015

PRINCIPAL PLACE OF BUSINESS

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

AUDITOR

KPMG Kenya
ABC Towers, ABC Place,
Waiyaki Way
P.O. Box 40612 - 00100
Nairobi

REGISTRARS

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

REGISTERED OFFICE

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

INTERIM COMPANY SECRETARY

Mrs. Enid Muriuki
NewDay Secretarial & Consulting Ltd
6th Floor, Wing A, West End Towers,
Waiyaki Way
P O Box 49382, 00100
Nairobi

| BANKERS |

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

National Bank of Kenya Limited
KEBS Compound
South C
P O Box 38645 - 00100
Nairobi

UBA Kenya Bank Ltd
1st Floor, Apollo Centre, Vale Close
Ring Road, Westlands, Kenya
P O Box 34154 - 00100
Nairobi

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

Commercial Bank of Africa Limited
Mara and Ragati Roads, Upper Hill
P.O. Box 30437 - 00100
Nairobi

Co-operative Bank of Kenya Limited
Co-operative Bank House
Haile Selassie Avenue
P O Box 48231 - 00100
Nairobi

Jamii Bora Bank Limited
Jamii Bora House
18 Koinange Street
P O Box 22741 - 00400
Nairobi

| NOTICE TO THE ANNUAL GENERAL MEETING |

TO ALL SHAREHOLDERS

UCHUMI SUPERMARKETS LIMITED

NOTICE is hereby given that the 36th Annual General Meeting of the Company will be held at the Ufungamano Hall, Mamlaka Road, Nairobi on Friday, 31 March 2017 at 10:00 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To read the notice convening the meeting and confirm presence of a quorum.
2. To receive, consider and adopt the Financial Statements for the financial year ended 30 June, 2016 together with the Chairperson's, Directors' and Auditors' reports thereon.
3. To note that the Directors do not recommend payment of a dividend for the year ended 30 June, 2016.
4. Election of Directors:-
 - 4.1 To elect the following Directors pursuant to the provisions of Article 102 of the Company's Articles of Association, having been appointed in office by the Directors to fill casual vacancies:-
 - (i) Mr. Timothy Mwaniki Kabiru
 - (ii) Mr. John Karani Ndiwa
 - (iii) Ms. Glory Mukiri Kiogora
 - 4.2 Industrial & Commercial Development Corporation retires at this meeting in accordance with the provisions of Article 100 of the Company's Articles of Association and, being eligible, offers itself for re-election.
5. To re-appoint Messrs KPMG Kenya as Auditors by virtue of Section 721(2) of the Companies Act, 2015 and to authorise the Directors to fix the Auditor's remuneration for the ensuing financial year.

SPECIAL BUSINESS

6. To pass the following resolution as a Special Resolution pursuant to Section 53 of the Companies Act, 2015:-

"That the name of the Company be changed from Uchumi Supermarkets Limited to Uchumi Supermarkets Plc"

7. Any other business of which due notice has been given.

BY ORDER OF THE BOARD



ENID MURIUKI (MRS)

SECRETARY

Date: 8 March 2017

NOTES:

- (I) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. A form of proxy may be obtained from the Company's website www.uchumicorporate.co.ke or from the Share Registrars, Funguo Registrars, 17th Floor, Uchumi House, Aga Khan Walk, P O Box 61278, 00200 Nairobi.
- (II) To be valid, a form of proxy must be duly completed by the member and must be lodged with Funguo Registrars, 17th Floor, Uchumi House, Aga Khan Walk, P O Box 61278, 00200 Nairobi or at the offices of Uchumi Supermarkets Limited, Yarrow Road, Off Nanyuki Road, Industrial Area, P O Box 73167 Nairobi, not later than forty eight hours before the time of holding the meeting.
- (III) A copy of the financial Statements may be viewed on and obtained from the Company's website (www.uchumicorporate.co.ke) or from the Registered Office of the Company, Yarrow Road, Off Nanyuki Road, Industrial Area, Nairobi.
- (IV) Registration of members and proxies attending the Annual General Meeting will commence at 8.00 a.m. on 31 March 2017. Production of a National Identity Card, a passport, a current Central Depository Statement of Account for shares held in the Company, or other acceptable means of identification will be required.
- (V) Transport will be provided to Shareholders on 31 March 2017 from the KENCOM bus stop to Ufungamano Hall from 7.00 a.m. to 9.45 a.m. and back to KENCOM after the close of the meeting.

| REPORT OF DIRECTORS |

The directors submit their report and the audited financial statements for the year ended 30 June, 2016 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 21 to the financial statements.

2. Results

The group's and the company's results are set out on pages 27 and 28 respectively.

3. Dividend

The directors do not recommend payment of a dividend in respect to the year ended 30 June, 2016 (2015 – Nil).

4. Directors' remuneration

The director's remuneration for the year ended 30 June, 2016 has been disclosed at Note 26

5. Shareholding by directors

The following directors held the number of shares indicated below as at 30 June, 2016

Name	Number of shares
Jamii Bora Bank Limited	54,409,539
Government of Kenya	53,537,573
Industrial & Commercial Development Corporation	7,288,472
Timothy Mwaniki	2,556,100
Mbatha Mbithi	100,000
Bartholomew Ragalo	47,866
Khadija Mohamed Mire	27,009
John Karani Ndiwa & Charles Thinwa	13,000
Julius Kangogo Kipngetich & Winsum Chemutai	7,862
John Karani Ndiwa	4,184
Catherine Wanjiku Ngahu	80

6. Business overview

Operations of the company

The performance of the business in the current year has remained suppressed with company sales remaining low due to working capital challenges especially cash flow and stocks. However, these trend is expected to change with the execution of business turn round strategy which will address the biggest challenges of cash flow and stocks.

Other trends and factors likely to affect the performance of the business positively includes favourable and stable interest rates and a stable economy which has prevailed in the recent years.

During the year, the management has continued to pursue the business turnaround strategy which had been envisaged to take between 6-30 months and costing around KSh1.8 billion. The key highlights of the turnaround strategy entail rationalisation of operations at company and group level, funding and growth.

In this regard, the management in the course of the year stopped opening of new branches, discontinued operations of subsidiaries in Uganda and Tanzania and closed 7 non profit making branches in Kenya for the purposes of better management of the available working capital.

Also in rationalization of operations, the management has instituted stringent financial management, undertaken rationalizations and competency assessment of staff; refurbishment of key branches to increase footfall, enriching supplier relationship management and transformation of customer service delivery. The enrichment of supplier relationship management is being undertaken together with a supplier council which is a representative of Uchumi suppliers involving management of provision stock and management of supplier payments.

Although the growth of sales and return to profitability majorly depends on funding as envisaged in turnaround strategy the management is pursuing other growth strategies including franchise model where the company will be earning royalty and at the same time increasing sales volume while transferring risks associated with the purchase and management of new sales outlets.

The funding of turn round strategy involves government funding, debt conversion, strategic investor and sale of Kasarani land. The government funding to the tune of KShs 1.8 billion has been approved by the cabinet and the first tranche of KShs 500 million was received on 19 January 2017. The subsequent tranches are expected to be received in the course of the financial year ending 30 June 2017.

NIC Capital Limited has been engaged for the debt restructuring of old supplier debt to equity. This is also expected to be done in the financial year ending 30 June, 2017.

The management continue to seek for a strategic investor as per the resolution passed in the last Annual General Meeting to raise funds to a maximum of KShs 5 billion. The management are in discussion with a number of potential strategic investors who have shown interest.

The management have put on sale the Kasarani land as per the board resolution passed on 9 May 2016. Resolution of the land ownership litigation by Sidhi Investment Limited on the property is ongoing.

The operations and success of the company is also hinged on maintaining committed employees with right competencies. During the year, the company has seen a high turnover of staff both at management and other levels but this has helped rationalize staff levels in the company. However, the key staff that have left have been replaced and the company has remained well staffed during the year.

The business continues to maintain contractual arrangement with its lenders who continue to support the business including its principal banks. The other contractual commitments include winding up petitioner's settlement which continues to be honoured.

The business anticipates environmental challenges including the current drought situation in the country which may lead to inflation and shortages of supplies especially agricultural produce, expected stagnation in economic growth and all challenges related to the elections coming up in the month of August 2017. From previous experiences of similar challenges in the past, the business is optimistic it will overcome the above challenges.

7. Employees

The directors are pleased to record their appreciation for the untiring efforts of all employees of the Company. The average number of employees in 2016 was 2,317 (2015 – 3,064).

8. Directors remuneration

Director's remuneration for the year ended 30 June 2016 is KShs 31,272,000 (2015- KShs 29,779,000) as executive and as director.

9. Relevant audit information

The Directors in office at the date of this report confirm that:

- (i) There is no relevant audit information of which the Group and Company's auditor is unaware; and
- (ii) Each of the Directors have taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group and company's auditor is aware of that information.

10. **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 and company, misleading.

11. **Auditors**

The company's auditors, KPMG Kenya, who were appointed during the year in place of Ernst & Young, have expressed their willingness to continue in office in accordance with the requirements of the Kenyan Companies Act, 2015.

12. **Approval of financial statements**

The financial statements were approved at a meeting of the Board of Directors held on 30 January 2017.

BY ORDER OF THE BOARD

A handwritten signature in black ink, consisting of a large loop followed by several vertical strokes and a long horizontal line extending to the right.

DIRECTOR

Date: 30 January 2017



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| BOARD OF DIRECTORS |



Dr. Catherine Ngahu, EBS | CHAIRMAN

Dr. Catherine Ngahu is a consultant, researcher and educator with over 25 years of practicing and consulting experience in business strategy, marketing, ICT and corporate governance. She is the Founder and Executive Chairperson of SBO Research, a leading Marketing Research Company working in several countries in Africa. She holds a PhD in Business Administration from the University of Nairobi. She has been a senior lecturer at the University of Nairobi, School of Business for many years.

Dr. Ngahu is the Chairperson of Universal Service Advisory Council at Communication Authority of Kenya; and a member of the Boards of AAR Insurance, Moran Publishing and Eveready East Africa. She was recently appointed to chair Uchumi Supermarkets Board. She previously served as Chairperson of Kenya ICT Board (2007-2013).



Dr. Julius Kipng'etich | CHIEF EXECUTIVE OFFICER

Dr. Julius Kipng'etich is the current Chief Executive Officer of Uchumi Supermarkets. He holds a Master of Business Administration degree and a Bachelor of Commerce (Accounting option) degree from University of Nairobi, where he also lectured in the Department of Management Science. He is also the Patron of AIESEC - University of Nairobi.

He previously worked as the Chief Operating Officer of Equity Bank where he oversaw the day to day execution of strategic initiatives and operations of the Bank. Prior to that he was the Chief Executive Officer of Kenya Wildlife Service (KWS) for an eight-year period during which he oversaw the successful transformation of the government parastatal into a successful business outfit. Before joining KWS, Dr. Kipng'etich was the Managing Director of Investment Promotion Centre.

Mrs. Margaret Kositany | INDEPENDENT DIRECTOR



Margaret Mwarey Kositany is a Strategy & Marketing Consultant. She is an accomplished MBA executive with over 17 years domestic, regional and international experience

in marketing, leadership, strategy and communication. She previously worked for Ericsson and Airtel as Marketing Director. She is energetic and a results oriented decisive leader.

Margaret is also a director on the Brand Kenya Board.

She holds an MBA from Curtin University, Australia and a Bachelor's degree in Economics and Business Administration from Kenyatta University.

Mr. Oyieko Dismas | DIRECTOR



Mr. Oyieko is the Portfolio Manager since December, 2014. Prior to this appointment, he held the position of Special Projects Manager. He has over 15 years'

experience at Senior Management Level, having worked as Head of Department in various portfolios within ICDC. He was awarded the Head of State Commendation in 2004, by His Excellency the former President of the Republic of Kenya, Hon Mwai Kibaki C.G.H, M.P. He holds a Master of Science degree in Development Finance from the University of Birmingham, UK and a Bachelor of Commerce degree in Accounting from the University of Nairobi.

Ms. Glory Kiogora | INDEPENDENT DIRECTOR



Glory Mukiri Kiogora holds a Masters degree in Business Administration, Finance from the University of Nairobi. She holds a Bachelor of Education, Economics

and Business from Kenyatta University. She is a CPA (K) and a member of the Certified Public Accountant of Kenya (ICPAK). Glory has also taken short courses in Board Development Program, Trustee Certification Program, Bullet Proof Manager, Behavioral Skills Training, The Courage to Lead among others.

Glory has previously worked as a lecturer at Kenyatta University and Kenya Polytechnic. She worked as an Assistant Chief Accountant at Panafric Hotel and is currently the Finance Manager at The Nairobi Serena Hotel.

Dr. Chris Kiptoo | DIRECTOR



Dr. Chris Kiptoo is the Principal Secretary for the State Department of Trade in the Ministry of Industry, Trade and Co-operatives. He holds

a Doctor of Philosophy Degree (PhD) - International Macroeconomics Finance Specialization from the University of Nairobi. He is also an Accredited Fellow of the Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI), in the field of macroeconomic management. He is an Associate of Kenya Chartered Institute of Bankers (A.K.I.B).

Dr Kiptoo previously worked at TradeMark East Africa's (TMEA) as the Kenya Country Director. Prior to joining TMEA he worked at the Office of the Prime Minister (OPM) where he was the Director, Economic Policy Coordination (EPC) Unit. His main duties at OPM were to provide strategic economic policy advice to the Prime Minister, particularly in respect of; policy and strategy coordination and the implementation of major priorities in Vision 2030. He has also worked at the Capital Markets Authority (CMA) as the Senior Advisor & Manager, Special Projects.

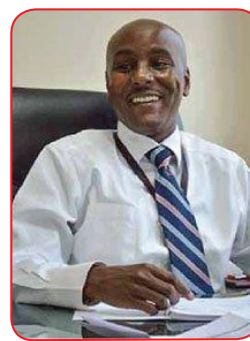
Mr. Louis Otieno | INDEPENDENT DIRECTOR



Louis Otieno holds a Masters of Business Administration degree from Long Island University and a Bachelor of Science in Computer Science from Mercy College.

He is currently the Director in the Middle East and Africa team responsible for Corporate Affairs with Microsoft 4 Afrika – a strategic initiative aimed at helping Africa accelerate its economic growth and global competitiveness. Previously, he was General Manager East and Southern Africa and Director of Enterprise Sales for East, West and Central Africa at Microsoft Corporation. A software developer by training and an MBA graduate, Louis is a former Assistant Vice President at EEC Financial Services in New York and New Jersey, USA. He has served on Kenya's Vision 2030 Board and was a director at ICT firm Enablis East Africa. He currently sits on the board of Red Media (Nigeria) and is the patron of Kisumu Rugby Football Club, among other responsibilities.

Mr. Timothy Kabiru | DIRECTOR



Timothy Kabiru is the current Deputy Chief Executive Officer and a director on the board of Jamii Bora Bank. He has over 20 years experience in the Banking sector having held senior managerial and director positions in

various banks in Kenya, the most notable being KCB, Co-op Bank, ABN Amro and NIC Bank. During his career he has led treasury, corporate, institutional and retail banking teams with overall responsibility for developing and executing aggressive growth strategy. He has been involved in developing turn around strategies for some of the largest banks in Kenya.

As the Deputy CEO at Jamii Bora Bank he has been responsible for driving the commercial strategy of the Bank and is currently leading the Bank's two subsidiaries – Jamii Bora Insurance Agency Ltd. and Jamii Bora Leasing Ltd. He is also responsible for the Bank's digital strategy which seeks to transform Jamii Bora Bank into a leader in the digital financial services space. He holds a Bachelor of Business Administration Degree with a major in Finance & Economics from the University of New Brunswick, Canada.

He is the a director on the board of Uchumi Supermarkets Ltd. and the chair of the Supermarket's Board Strategy Committee.

Mr. John Karani | DIRECTOR



John Karani is seasoned Pan-African Procurement & Supply Chain Professional with over 27 years' experience in major blue-chip FMCG industries across Africa, 18 of them as Head of Global Procurement at Coca-Cola Africa. He brings onboard extensive credentials earned in long-term service, global exposure, and professional development with the Coca-Cola Company and other FMCG companies among them East African Breweries, Glaxo SmithKline, Wrigleys East Africa Limited. He has operated in complex global and multi-geographical locations and in entrenching

Strategic Procurement thinking, enhancing Total Supply Chain solutions and implementing innovative Procurement Solutions & Process Improvements. John is passionate in developing young people through nurturing and motivating a new generation of Procurement & Supply Chain Professionals.

John holds an MBA Degree in Strategic Management from the United States International University and a Bachelors' Degree in Economics (BA-ECON) from the University of Nairobi. He is also a fully qualified Fellow (MCIPS) of the Chartered Institute of Purchasing & Suppliers Management (UK) and MILT from the Chartered Institute of Logistics & Transport (UK). He is a member, practitioner and ardent supporter of the Kenya Institute of Supplies Management which promotes supply chain professionalism and integrity in Kenya. John is Accredited Executive Coach with the Association of Executive Coaches (AoEC) UK with focus on Coaching Procurement & Supply Chain Professionals.

John is currently the Managing Director/Lead Consultant of Equator Industrial Solutions which provides an "A-Z" suite of FMCG Solutions & Consultancy Services to several companies across Africa. He also currently serves on the Boards of two Non-Profit Organizations namely: Kenya Youth For Christ International and The International Bible Society, Kenya Chapter.

Mrs. Enid Muriuki | COMPANY SECRETARY



Enid Muriuki is a Certified Public Secretary with 17 years of consulting and industry experience on matters of corporate governance and statutory compliance. Enid has gained

extensive experience having worked with several clients in her 12 years of employment with Deloitte Limited, and while working as an in-house Company Secretary with IPS, the industrial arm of the Aga Khan Group.

She is a holder of a Bachelor of Science degree from Jomo Kenyatta University of Agriculture and Technology and a Diploma in Business Management from Kenya Institute of Management. Enid has also attended various governance certification courses over the course of her career.

She is a registered member of the Institute of Certified Public Secretaries of Kenya and is also a Certified Governance Auditor.

| CHAIRPERSON'S STATEMENT |



Distinguished shareholders, it is my great pleasure to report to you the company's performance for the financial year 2015/2016. I am happy to bring you up to speed on the financial health of the company and to provide a vision and projection of where the company intends to go in the future.

2016 was a difficult year not only for Uchumi Supermarkets, but for the entire retail sector and the Kenyan economy as a whole. For Uchumi, continued litigation, implementation of a turnaround plan, and the need to consistently make painful decisions for the good of the company meant that we had to at times rub various stakeholders the wrong way. In making tough calls, we were always guided by what was best for the company and in this we will continue with unwavering fortitude and focus.

According to the World Bank December 2016 report, the Kenyan economy expanded by 6%. For many in the economy, this meant an increase in spending power and disposable income. For a majority of Kenyans however, and for many that form a key pool of our customers and footfall, inflation which stood at 6.35% as at December 2016, has eroded the spending power. This has meant that they have had less and less to spend every time they walked into any of our stores.

We however continue to offer an 'unparalleled' value and will strive to ensure that we provide bargains which keep the customers coming back.

The current drought situation creates a tricky conundrum for our brand. While it causes the prices of basic foods like milk and flour to rise, it also reduces incomes and spending power. These household goods continue to be the mainstay of our sales and will thus be keenly watched to ensure they remain affordable in order to protect our market share and maintain brand equity.

The retail sector in Kenya experienced significant growth in 2016. This is due to the increased spending power of the middleclass population. The other factors that have influenced the growth of the retail sector are improved infrastructure enabling easy accessibility to the markets, as well as promoted rapid retail expansion to untapped rural and peri-urban markets and a property boom allowing retailers to take up prime locations near residential areas for customer convenience. There has also been increased investment in the retail sector by international brands. The Kenyan retailing market has seen increasing penetration of international retailers that have opened outlets in Kenya such as; Massmart Holding's Game, Carrefour and Botswana's Choppies, who entered the market in 2016. These international brands are responding to a growing demand for quality international brands. The changing shopping culture amongst the urban consumers will see retailers improve their basket size and foot fall eventually.

When we began our journey to recovery, we knew it would not be easy. Our performance for the year ended 30th June 2016 was impacted by the closure of non-performing branches in Uganda, Tanzania and Kenya and supply chain

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challenges. The effect to June 2016 was a decline in revenues. These branches had been a major drain on company resources and due to several interventions by the Management, the hemorrhage stopped and the Group's losses reduced by 17% from KES 3.4BN in 2015 to KE 2.8BN in 2016. It is indeed clear that the tide is turning.

As we look to the future with vigor and renewed ambition, the Board and Management are focusing on a turnaround strategy which includes the adoption of a franchising model which will enable us penetrate the rural and peri-urban markets with minimal risk, funding through shareholders' loan, improvement in ICT, debt restructuring, sale of non-core assets and supplier support through mutually beneficial partnerships.

The search for a strategic investor is ongoing and is at an advanced stage with several potential partners and the Board is hopeful that the discussions will be concluded in 2017. We will keep our shareholders and other stakeholders apprised of developments.

Finally, the Board of Directors is confident that the strategies being implemented will achieve the desired turnaround. The Uchumi brand is still very vibrant and will continue to be a strong household brand. We thank all the stakeholders for their continued support and look to the future, resolute and hopeful.

Thank you.



Dr. Catherine Ngahu, EBS | CHAIRMAN

The search for a **strategic investor** is ongoing and is at an **advanced stage** with several potential partners and the Board is **hopeful** that the discussions will be **concluded** in 2017.

| CEO'S STATEMENT |



We value our stakeholders support and in an effort to **build confidence** with these parties, we adopted a **transparent channel** in the form of an escrow account to **manage payment**

Dear Shareholders,

Welcome to yet another edition where we review our company's performance for the past year.

On behalf of the management, I wish to thank you for entrusting this great company to us, especially during this challenging season the business is facing. I can assure you that we took up keen measures, some of which I have mentioned below, to ensure that the country's oldest retail supermarket is back on its feet again.

A. ACHIEVING STABILITY.

With a goal to achieving stability, 2016 saw further re-organisation of the business leading to the closure of 5 non profit making stores across the country, which has seen the company reduce its operational expenses in order to run more efficiently.

Having faced a challenge of stock outs in our stores at the beginning of the year, we initiated major interventions that have seen a number of suppliers come back on board leading to an increase in our stock levels. Some of the interventions included a deed of settlement agreement that now allows willing suppliers to convert their outstanding debt into equity. This undergoing conversion which has the full support of the Ministry of Trade Industry & Cooperatives has continued to see more cohesion between the business and the suppliers.

We value our stakeholders support and in an effort to build confidence with these parties, we adopted a transparent channel in the form of an escrow account to manage payment of resumed supplies. With this, account sales revenues in the current period are ring-fenced and payment managed in conjunction with a supplier council. I am glad to report this has seen an additional number of suppliers come on board creating a wider variety for our shoppers.

To further bridge the low stocking that Uchumi faced within that year, the management, with board approval incorporated a stock financing and logistics partner as stop gap measure to obtain stocks from key unlocked suppliers.

Further stabilization efforts, and as approved during the last AGM, the past year saw the sale of Ngong Hyper, whose proceeds went towards off setting loans owed to financial institutions. We are also in the process of offloading USL owned Kasarani land that will inject some much needed financing for the business.

B. BUSINESS GROWTH.

Branch Managers Assessment

Gearing towards growth, 2016 saw our commitment to having the best talent across all our stores being met. A thorough management assessment saw us onboard new branch managers in preparation of the anticipated Uchumi's revival due to supplier's resumption under the Escrow account and the Government loan. To further achieve

optimal human resource, we introduced a voluntary early retirement offer allowing any staff who wanted to leave the organisation voluntarily do so freely.

Government Bail out

A positive turn during this period was the receipt of the first of Ksh.500 million tranche of the Ksh.1.2 billion cash infusion from the Government of Kenya. With the cash injection earmarked for stocking as resolved by the Cabinet and Uchumi's management, we intend to improve the customer experience, rebuild footfall and consequently increase revenue with a goal of returning to profitability within 24 months.

Uchumi Franchise Model

As part of Uchumi Supermarket's new expansion plan, 2016 saw us venture into a franchising model, as the vehicle to increased sales volume while transferring risks associated with the purchase and management of new sales outlets.

The model which is executed as 'Uchumi Express' & 'Uchumi Mini', the franchise model targets existing branches, third party outlets and established small-scale operators such as shops, estate shopping centre stores or outlets where they will be assimilated into Uchumi's distribution network and operate under the trademark and brand of Uchumi Supermarkets Limited.

It is my pleasure to notify you that we have already done a pilot test of an Uchumi Express and now largely understand its model operationalization. This is just the first step of the expected 200 Uchumi Express Outlets & 1,000 Uchumi mini's in a (3) three year span targeted in each of all the Kenyan counties. Uchumi Yaendealea!

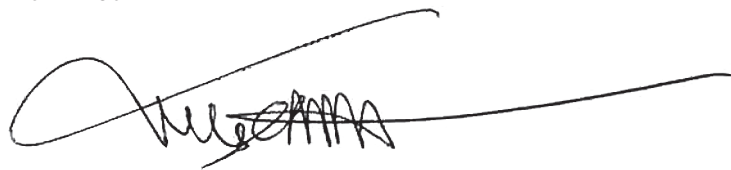
Conclusion

Uchumi continues to be a vital part of the Vision 2030 retail & wholesale objective which is "to move towards greater efficiency in the country's marketing system by lowering transaction costs through institutional reforms".

I thank all the partners and friends of Uchumi who have continuously supported our company to realize this vision by committing both money and time to bring this company to greatness again. This display of collective ambition with our suppliers & producers, shareholders and our loyal customers is the true Kenyan spirit!

Let us forge on in rebuilding Uchumi to be a greater brand than even what was there before.

Thank You.



Dr. Julius Kipng'etich | CHIEF EXECUTIVE OFFICER

'The **success** of this **brand** is not an individual's task; it is a **collective effort** that can only be **achieved** through teamwork'

| CORPORATE GOVERNANCE STATEMENT |

The Board is responsible for reviewing and approving the business strategic objectives and providing the necessary leadership and oversight to the Management. It is ultimately responsible for the performance of the business.

The Board of Directors on behalf of the shareholders ensures that the Company is run in accordance with the law and the highest standards of business ethics. The Board is also responsible for building shareholders value by ensuring growth and profitability of the Company.

The Board of directors is committed to upholding good corporate governance practices and is guided by among other codes, the Code of Corporate Governance for Issuers of Securities to the Public, 2015 issued by the CapitalMarkets Authority.

Board composition and activities

The Board is made up of nine Board members. Out of the nine directors, there are eight non-executive directors and one executive director. The Board composition is in compliance with Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya which requires that one least a third of the directors must be independent. In addition, the Chair of the Board of Directors is a non-executive and independent Director.

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

The Board meets regularly to apprise itself on the Company's operations and advise and guide Management accordingly.

Attendance at Board Meetings held during the period under review was noted as follows:-

July to December 2015

Director	25/07	3/08	5/08	11/08	19/11	23/11	27/11	1/12
Khadija Mire (Resigned 12/ 2015)	✓	-	-	-	✓	✓	✓	✓
James Murigu (Resigned 08/2015)	✓	✓	✓	✓	-	-	-	-
Barthlomew Ragalo (Resigned 12/ 2015)	✓	✓	✓	✓	✓	✓	✓	-
Polycarp Igate (Resigned 23/03/2016)	✓	✓	-	✓	✓	-	✓	✓
Richard Sindiga (For PS Trade & Industry)	-	-	-	-	✓	✓	✓	✓
Margaret Kositany (Appointed 25/03/2015)	✓	✓	✓	✓	-	✓	✓	✓
Julius Kipngetich (Appointed 03/08 2015)	-	-	-	-	✓	✓	✓	✓
ICDC Represented by Faith Nene (Resigned 23/03/2016)	✓	✓	✓	-	✓	✓	✓	-
Sam Kimani (Resigned 23/03/2016) For Jamii Bora Bank	✓	✓	✓	✓	✓	✓	✓	✓

January to June 2016

Directors	20/01	29/02	2/03	8/03	10/03	18/03	24/03	18/04	26/04	09/05
Dr. Catherine Ngahu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Julius Kipngetich	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
PS Trade & Industry - Dr. Chris Kiptoo	-	-	-	-	-	-	-	-	-	-
Polycap Igathe (Resigned 23/03/2016)	✓	✓	✓	✓	-	-	-	-	-	-
Mrs. Margaret Kositany	-	✓	✓	✓	✓	-	✓	✓	✓	✓
Mr. Louis Otieno (Appointed 27/11/2015)	✓	✓	✓	✓	✓	✓	-	✓	✓	-
ICDC Represented by Faith Nenet till 23/03/2016	✓	-	-	-	-	✓	-	-	-	-
ICDC Represented by D Oyieko from 24/03/2016	-	-	-	-	-	-	✓	✓	✓	-
Mr. Samuel Kimani For Jamii Bora Bank Ltd till 23/05/2016	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Timothy Kabiru For Jamii Bora Bank Ltd From 23/05/2016	-	-	-	-	-	-	-	-	-	-
Ms. Glory Kiogora (Appointed 9/9/2016)	-	-	-	-	-	-	-	-	-	-
Mr. John Karani (Appointed 9/9/2016)	-	-	-	-	-	-	-	-	-	-

Board Committees

The Board has delegated certain authorities to the three standing Board Committees; the Audit Committee, the Nomination, Governance and HR Matters Committee, and the Strategy, Finance and Business Development Committee.

a. Audit Committee:

The Committee's composition is as follows:-

1. Ms. Glory Kiogora – Chair
2. Mr. Louis Otieno
3. Mr. John Karani
4. ICDC – Represented by Mr. Dismas Oyieko

The Chair of the Committee is an Independent Director.

The Committee's main mandate is to assist the Board in discharging its duties relating to safeguarding of assets, the operation of adequate systems, control processes and the preparations of accurate financial statements in compliance with all applicable legal requirements and accounting standards.

b. Nominations, Governance and HR Matters Committee

The members of this Committee are as follows:

1. Mrs. Margaret Kositany – Chair
2. Mr. Timothy Kabiru
3. Mr. John Karani
4. ICDC – Represented by Mr Dismas Oyieko

The Chair of the Committee is an Independent Director.

The Committee's main mandate includes reviewing issues related to appointment and remuneration of senior management and the nomination, remuneration, retirement and re-appointment of Directors. The Committee also reviews and recommends to the Board priorities in human resources, including appropriate HR policies. The Committee also ensures the Company's compliance with the Capital Markets Authority's Code of Corporate Governance for Issuers of Securities to the Public, 2015.

c. Strategy, Finance and Business Development Committee

The Committee comprises four non-executive directors. The membership of the Committee is as follows:-

1. Mr. Timothy Kabiru – Chair
2. Mrs. Margaret Kositany
3. Mr. Louis Otieno
4. Mr. John Karani

The Committee's main mandate includes monitoring strategy implementation and overall company performance. The Committee considers and recommends to the Board all business growth, branch expansion and business development plans and ensures they are within the strategic plans and budgets.

Directors' remuneration

The total remuneration paid to directors for services rendered during the year are disclosed in note 26 to the financial statements.

In the year under review, no director was entitled to receive any benefit other than directors' allowances and amounts received under employment contracts for the executive director.

Relations with shareholders

The Company has retained the services of a Shares Registrar who, in conjunction with the Company Secretary respond to all shareholders issues. The Directors also ensure that pertinent information is provided to the shareholders in a timely manner through the media or through the Company's website. The shareholders are also given an opportunity to ask questions about the Company's operations during Annual General Meetings.

The Company also issues announcements on material information from time to time through the media in line with the Capital Markets Authority's Regulations. All pertinent information about the Company is also available on the Company's website.

Directors' shareholding

The Directors who held shares in the Company as at 30 June, 2016 are as detailed below:-

Name Of Director	No of Shares	Remarks
Permanent Secretary Ministry of Trade and Industry	53,537,573	
ICDC	7,288,472	
Mr. Timothy Mwaniki Kabiru	2,556,100	
Dr. Julius Kipngetich	7,862	Jointly held
Mr. John Karani Ndiwa	17,184	13,000 jointly held
Catherine Wanjiku Ngahu	80	

Top Shareholders

The top ten shareholders as at 30 June, 2016 were as below:-

Name of Shareholder	Address	No of Shares	Percentage Holding
Jamii Bora Bank Limited	P.O Box 22741, 00400 Nairobi	54,409,539	14.9%
Government of Kenya	P.O. BOX 9999, 9999 Nairobi	53,537,573	14.7%
Equity Nominees Limited A/C0142	P.O. Box 75104, 00200 Nairobi	21,219,898	5.8%
Paul Wanderi Ndungu	P.O. Box 75528, 00200 Nairobi	16,869,272	4.6%
Standard Chartered Nominees Non-Resident A/C KE8723	P.O. Box 40984, 00100 Nairobi	14,058,020	3.9%
Standard Chartered Nominees Limited Non Resd A/CKE11663	P.O. Box 40984, 00100 Nairobi	13,371,407	3.7%
Brunei Investment Limited	P.O. Box 44995, 001000 Nairobi	12,830,103	3.5%
Standard Chartered Nominees Non-Resident. A/C 9289	P.O Box 40984,00100 Nairobi	11,800,000	3.2%
Co- op Custody A/C 4018	P.O Box 48231, 00100 Nairobi	8,402,800	2.3%
Standard Chartered Nominees Limited Non Resd A/C 9913	P.O Box 40984,00100 Nairobi	8,166,000	2.2%
Others		150,296,982	41.2%
	Total Issued	364,959,616	100.00%

Shares Distribution

The distribution of shares as at 30 June, 2016 was as below:-

	No of Shareholders	No. of Shares	% shareholding
1 to 1,000	9,493	4,315,792	1.18%
1001 to 10,000	6,965	21,800,159	5.97%
10,001 to 100,000	1,227	32,513,785	8.91%
100,001 to 10,000,000	131	35,901,631	9.84%
10,000,001 to 100,000,000	34	270,428,249	74.10%
TOTAL	17,850	364,959,616	100.00%

| CORPORATE SOCIAL RESPONSIBILITY REPORT |

Boldly stated in the company values, corporate social responsibility lies deep within the heart of Uchumi Supermarkets Limited; we therefore commit to giving back to the society as much as possible through different social responsibility initiatives.

ONGOING INITIATIVES

Uchumi Supermarkets Limited largely appreciates the support and loyalty shown by the Kenyan public to the business over the decades since the inception of the company, this has ensured the growth, development and business sustainability of the Uchumi brand. In our commitment to give back to society, Uchumi Supermarkets Limited continues to be involved in support of various initiatives in health care, education, environment, human rights and poverty eradication.

Over the years we have partnered with some of the most successful CSR campaigns in the country: the Standard Chartered Marathon, the Safaricom Lewa Marathon and the Kericho International marathon. These activities not only go towards a good cause but also create an opportunity for our staff to have fun and improve their individual physical fitness.

This year, Uchumi supermarket's representatives were involved in the annual Ndakaini Half Marathon where all proceeds from the event went to the conservation of the Ndakaini dam, a wellspring of life to the residents of the surrounding Muranga County. We also partnered with Blood Link Foundation in a good will cause to donate blood. This activity was held on the 28th of October 2016 at the Uchumi Supermarkets Limited headquarters in Industrial area, Nairobi. We successfully donated 16 pints of blood over the course of this initiative.

We take pride in our long standing relationship with other charitable organization such as the Thomas Barnados Children's home, and our support of The Kenya Red Cross Society, Grapevine and the Wofak fund drives. Uchumi Supermarkets Limited also receives donation of clothes and food by our customers in all our outlets which we distribute to the needy in our society. ASANTE WAKENYA.



1 - (Seated) Uchumi Supermarkets Nairobi West Team Leader Simon Maundu, (right in a buibui) Zainabu Mansur of Marketing and the Nairobi West Branch representatives during a visit to Mama Amina's home. Mama Amina is a loyal customer at the Uchumi Nairobi West branch but had been taken ill and was at home recovering. **2 -** (L) A former Uchumi Jogoo Road staff member Bernard Kongo presents clothing to a Senior Teacher at The Three in one Foundation Nancy Muthoni (R). Uchumi Supermarkets often collects gently used clothing, shoes, books among other items from customers and donates them to the less fortunate. **3 -** (L R) Uchumi Supermarkets Sarit Centre Branch Supervisor Raphael Mwangi (shaking hands) and Uchumi Sarit branch team members present gently used clothing donated by Uchumi customers and food items donated by Uchumi Supermarkets to Mercy (shaking hands) and Beth from The Girl Aid Foundation during the Save a Girl Campaign. **4 -** Uchumi Supermarkets team at the Ndakaini dam during a tree planting exercise to conserve the dam which supplies water to the residents of Nairobi and its environs. **5 -** Uchumi Supermarkets head office team representatives donate food and clothing among other items to HAWA Children's Home. The home is residence to 40 former street boys undergoing rehabilitation. **6 -** (Centre) Uchumi Supermarket's Advertising Assistant Richard Maweu with children from Imani Children's Home in Kayole Soweto where the Uchumi donated gently used clothing and food items as part of the company's CSR program.

| OUR PEOPLE |

People are integral to the success of an establishment and at Uchumi Supermarkets Limited we take cognizant of this and make concerted effort to ensure employees are well considered in business decisions that may affect them. As a Company we considered strategies that were affordable and yet impactful to keep employees engaged and well advised in the midst of a very challenging year.

Employee Engagement

During the year in review, initiatives were introduced to provide employees with avenues through which they would interact within teams and improve team cohesion and engagement at the workplace.

Monthly Town Hall Meetings

This was a monthly forum where senior management interacted with employees; to share with the teams updates on business performance and give directions. The Town Hall meetings also allowed employees an open forum for seeking clarifications for any emerging concerns and also showcase their talent. This initiative brought to the fore motivational speakers, comedians and leaders within the Company. We also celebrated everyone's birth month in the same forum. As management, we were able to lead employees through the very difficult year

Blue Jeans Friday

This was introduced in all our outlets where all employees were allowed to adorn blue jeans every Friday as a strategy to energize them and allow them deviate from the black bottoms to the blue jeans. Blue Jeans Friday gave rise to a lot of excitement at the shop floor levels

Team Building

A team building was organized for the Head Office team which was well received and appreciated by all the staff. Improved relationships at the work place were registered and teams lauded the gesture which will be cascaded across the business to improve teams' engagement.

Staff Welfare

The union employees were all placed on a medical cover which was an milestone from the previous arrangement for paying cash and claiming the same. We therefore secured medical cover with employees able to access more elaborate services from the medical facilities.

We facilitated the initiation of a voluntary staff welfare that would offer financial reprieve to members who suffer bereavement of their immediate family members. The same was well received and a number of members have been able to benefit from the same thus easing their financial burdens in such circumstances.

Another initiative of staff welfare was to our female colleagues returning from maternity leave who were allowed flexi-hours of work until the babies are weaned when they can resume the normal work schedules.

|Blue Jeans Friday|

In all our outlets where all employees were allowed to adorn blue jeans every Friday as a strategy to energize them and allow them deviate from the black bottoms to the blue jeans

| STATEMENT OF DIRECTORS' RESPONSIBILITIES |

The Directors are responsible for the preparation and presentation of the financial statements of Uchumi Supermarkets Limited set out on pages 27 to 73, which comprise the consolidated and company statements of financial position as at 30 June, 2016, and the consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its operating results.

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

The directors have made an assessment of the Group and the Company's ability to continue as a going concern and have prepared the Company and Group financial statements on the bases of accounting applicable to a going concern. The directors, however, are aware of the existence of a material uncertainty that may cast significant doubt about the Group and Company's ability to continue as a going concern. Directors have put in place initiatives disclosed at note 2(e) to the financial statements to enable the Group and Company to continue meeting its obligations as and when they fall due.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 30 January 2017 and were signed on its behalf by:



Dr. Julius Kipngetich
Director



Dr. Catharine Ngahu
Director

Date: 30 January 2017

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

Report on the consolidated and company financial statements

We have audited the consolidated and company financial statements of Uchumi Supermarkets Limited set out on pages 27 to 73, which comprise the consolidated and company statements of financial position as at 30 June, 2016, and the consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 24, 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, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, 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 relevant 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 our 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, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 unmodified audit opinion on the consolidated and separate financial position for the current year, but not on the consolidated and separate financial performance and cash flows, as described below.

Basis for disclaimer of opinion on the consolidated financial performance and cash flows and qualified opinion on the company's separate financial performance and cash flows

- 1 As disclosed in Note 34 to the consolidated financial statements, the Group lost control of the subsidiaries, Uchumi Supermarkets (Uganda) Limited and USL Tanzania Limited during the year. The directors were not able to access financial information relating to the operations between 30 June 2015 and October 2015 when control was lost. As a result, the consolidated financial performance and cash flows do not contain the results of the foreign subsidiaries up to the date of loss of control. In addition, the balances disclosed in Note 34 are the directors' best estimate of the financial position of the subsidiaries at the point of loss of control in October 2015, which have been used in determining the gain on loss of disposal of subsidiaries recognised in the current year. Due to the lack of information, we were unable to determine whether the consolidated financial performance and cash flows for the year ended 30 June 2016 are materially misstated.
- 2 We were appointed as auditors of the consolidated and company financial statements on 20 January 2016 for the audit of the year ended 30 June 2016. The financial statements as at and for the year ended 30 June 2015 were audited by another auditor who issued an unqualified opinion dated 27 November 2015 on those financial statements. During the course of our audit, the directors wrote off assets to the value of KShs 82 million in order to reconcile the fixed asset register to the company's general ledger. We were unable to determine whether the assets written off should have been written off in the current year or in previous financial years, and we were therefore unable to determine whether any adjustments might have been necessary in respect of the consolidated and separate financial performance and cash flows during the year.

These matters do not have an effect on the consolidated or separate financial position at year end.

Disclaimer of opinion on the consolidated financial performance and cash flows

Because of the significance of the matters described in 1 and 2 above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial performance and cash flows. Accordingly, we do not express an opinion on the consolidated financial performance and cash flows.

Qualified opinion on the separate financial performance and cash flows

In our opinion, except for the possible effects of the matter described in 2 above, the financial statements give a true and fair view of the separate financial performance and separate cash flows of Uchumi Supermarkets Limited for the year ended 30 June 2016 in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

Unqualified opinion on the consolidated and separate financial position

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of Uchumi Supermarkets Limited at 30 June 2016 in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

Emphasis of matter

Without further qualifying our opinion:

- (i) We draw attention to Note 2(e), which indicates that the Group and company incurred net losses after tax of KShs 2,837 million and KShs 3,600 million respectively during the year ended 30 June 2016, and as of that date, the Group and company's current liabilities exceeded their current assets by KShs 4,768 million and KShs 4,635 million respectively and the Group and company's total liabilities exceed their total assets by KShs 2,097 million and KShs 4,248 million respectively. These conditions, along with other matters as set forth in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Group and company to continue as a going concerns.
- (ii) We draw attention to Note 18(b) and Note 37, which indicate that the Group recognised investment property of KShs 2,400 million as at 30 June 2016 (2015-KShs 2,300 million) being the fair value per the valuation expert. Note 37 describes the uncertainty related to the outcome of lawsuits filed against the Group regarding the ownership of the investment property. The directors have not made an impairment provision at 30 June 2016 for the reason described in Note 18(b).

Report on other legal requirements

As required by the Kenyan Companies Act, 2015 we report to you based on our audit that except as disclosed in the Basis for disclaimer of opinion on the consolidated financial performance and cash flows and qualified opinion on the company financial performance and cash flows paragraph in the Report on the consolidated and company financial statements:

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

*The Engagement Partner responsible for the audit resulting in this independent auditors' report is
FCPA Eric Aholi - P/1471.*



Date: 30 January 2017
KPMG Kenya
8th Floor, ABC Towers, Waiyaki Way
P. O. Box 40612, 00100 - GPO
Nairobi

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016 KShs'000	2015 KShs'000
Revenue			
Sales	7	6,402,937	12,888,974
Income from redemption of loyalty points	33	<u>24,206</u>	<u>65,607</u>
		6,427,143	12,954,581
Cost of sales	8	<u>(5,450,199)</u>	<u>(10,816,813)</u>
Gross profit		976,944	2,137,768
Other income	9	<u>334,526</u>	<u>450,610</u>
		1,311,470	2,588,378
Expenses			
Administration and establishment	10	(3,238,836)	(4,668,440)
Selling and distribution	11	<u>(52,996)</u>	<u>(148,111)</u>
		<u>(3,291,832)</u>	<u>(4,816,551)</u>
Loss from operating activities		(1,980,362)	(2,228,173)
Change in fair value of investment property	18(b)	100,000	100,000
Provisions and write offs	13	(466,782)	(1,049,037)
Gain on loss of control of subsidiaries	34	<u>86,766</u>	<u>-</u>
		(2,260,378)	(3,177,210)
Finance costs	14	<u>(411,119)</u>	<u>(335,854)</u>
Loss before tax	15	(2,671,497)	(3,513,064)
Income tax (expense)/credit	16(b)	<u>(165,235)</u>	<u>91,704</u>
Loss for the year		(2,836,732)	(3,421,360)
Other comprehensive income		-	-
Total comprehensive income for the year		(2,836,732)	(3,421,360)
Earnings per share (Basic and diluted) - KShs	17	(7.77)	(9.37)

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016 KShs'000	2015 KShs'000
Revenue			
Sales	7	6,402,937	11,389,704
Income from redemption of loyalty points	33	<u>24,206</u>	<u>65,607</u>
		6,427,143	11,455,311
Cost of sales	8	<u>(5,450,199)</u>	<u>(9,592,566)</u>
Gross profit		976,944	1,862,745
Other income	9	<u>334,526</u>	<u>404,690</u>
		1,311,470	2,267,435
Expenses			
Administration and establishment	10	(3,238,836)	(3,383,767)
Selling and distribution	11	<u>(52,996)</u>	<u>(118,861)</u>
		<u>(3,291,832)</u>	<u>(3,502,628)</u>
Loss from operating activities		(1,980,362)	(1,235,193)
Impairment of subsidiaries balances	12	(581,791)	(1,699,381)
Provisions and write offs	13	<u>(466,782)</u>	<u>(1,049,037)</u>
		(3,028,935)	(3,983,611)
Finance costs	14	<u>(411,119)</u>	<u>(173,545)</u>
Loss before tax	15	(3,440,054)	(4,157,156)
Income tax (expense)/credit	16(b)	<u>(160,235)</u>	<u>226,546</u>
Loss for the year		(3,600,289)	(3,930,610)
Other comprehensive income		-	-
Total comprehensive income for the year		(3,600,289)	(3,930,610)
Earnings per share Basic and diluted - KShs	17	(9.86)	(10.77)

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

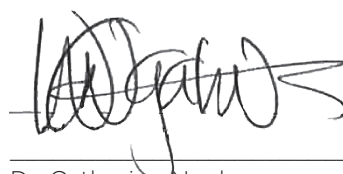
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2016

ASSETS	Note	2016 KShs'000	2015 KShs'000
Non-current assets			
Property and equipment	18(a)	910,812	2,155,957
Investment property	18(b)	2,400,000	2,300,000
Intangible assets	19	9,062	7,827
Prepaid operating lease rentals	20	18,303	18,932
Deferred tax asset	22	-	152,993
		<u>3,338,177</u>	<u>4,635,709</u>
Current assets			
Inventories	23	281,650	923,007
Non-current assets held for sale	24	977,528	408,773
Trade and other receivables	25	222,932	307,374
Tax recoverable	16	-	3,457
Bank and cash balances	27	181,929	134,676
		<u>1,664,039</u>	<u>1,777,287</u>
TOTAL ASSETS		<u>5,002,216</u>	<u>6,412,996</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	28	1,824,808	1,824,808
Reserves- (deficit)	29	(3,922,185)	(1,085,453)
		<u>(2,097,377)</u>	<u>739,355</u>
Non-current liabilities			
Deferred tax liability	22	115,750	110,750
Term loans	30	63,141	-
Obligation under finance leases	31	488,530	382,944
		<u>667,421</u>	<u>493,694</u>
Current liabilities			
Trade and other payables	32	4,684,639	3,859,318
Obligation under finance leases	31	310,335	565,732
Deferred revenue	33	25,581	29,861
Advance payment on sale of property	24	600,000	-
Term loans	30	298,569	266,032
Tax payable	16	2,843	19,699
Bank overdraft	27	510,205	439,305
		<u>6,432,172</u>	<u>5,179,947</u>
TOTAL EQUITY AND LIABILITIES		<u>5,002,216</u>	<u>6,412,996</u>

The financial statements on pages 27 to 73 were approved for issue by the board of directors on 30 January 2017 and signed on its behalf by:



Dr. Julius Kipngetich
Director



Dr. Catherine Ngahu
Director

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2016

ASSETS			2016 KShs'000	2015 KShs'000
	Note			
Non-current assets				
Property and equipment	18(a)		910,812	2,155,957
Intangible assets	19		9,062	7,827
Prepaid operating lease rentals	20		18,303	18,932
Investment in subsidiaries	21		200	200
Deferred tax asset	22		-	152,993
			938,377	2,335,909
Current assets				
Inventories	23		281,650	747,739
Non-current assets held for sale	24		977,528	-
Trade and other receivables	25		222,932	268,924
Amounts due from related parties	26(a)		133,103	133,103
Tax recoverable	16		-	3,457
Bank and cash balances	27		181,929	121,945
			1,797,142	1,275,168
TOTAL ASSETS			2,735,519	3,611,077
EQUITY AND LIABILITIES				
Equity				
Share capital	28		1,824,808	1,824,808
Reserves- (deficit)	29		(6,073,132)	(2,472,843)
			(4,248,324)	(648,035)
Non-current liabilities				
Term loans	30		63,141	-
Obligation under finance leases	31		488,530	382,944
			551,671	382,944
Current liabilities				
Trade and other payables	32		4,684,639	3,102,520
Obligation under finance leases	31		310,335	157,190
Deferred revenue	33		25,581	15,176
Advance payment on sale of property	24		600,000	-
Term loans	30		298,569	266,032
Tax payable	16		2,843	-
Bank overdraft	27		510,205	335,250
			6,432,172	3,876,168
TOTAL EQUITY AND LIABILITIES			2,735,519	3,611,077

The financial statements on pages 27 to 73 were approved for issue by the board of directors on 30 January, 2017 and signed on its behalf by:



Dr. Julius Kipngetich
Director



Dr. Catherine Ngahu
Director

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE, 2016

2016:	Share capital	Share premium	Revaluation reserve	Translation reserve	Retained earnings	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 July 2015	1,824,808	1,371,057	872,154	(34,259)	(3,294,405)	739,355
Total comprehensive income						
Loss for the year	-	-	-	34,259	(2,870,991)	(2,836,732)
At 30 June 2016	1,824,808	1,371,057	872,154	-	(6,165,396)	(2,097,377)
2015:						
At 1 July 2014	1,327,133	1,090,015	887,633	(158,542)	191,103	3,337,342
Total comprehensive income						
Loss for the year	-	-	-	-	(3,421,360)	(3,421,360)
Other comprehensive income						
Foreign currency translation differences	-	-	-	124,283	-	124,283
Total comprehensive income	-	-	-	124,283	(3,421,360)	(3,297,077)
Transactions with owners recorded directly in equity						
Proceeds from Rights Issue	497,675	398,140	-	-	-	895,815
Rights Issue Expenses	-	(117,098)	-	-	-	(117,098)
Transfer to accumulated losses	-	-	(15,479)	-	15,479	-
Dividends paid	-	-	-	-	(79,627)	(79,627)
	497,675	281,042	(15,479)	-	(64,148)	699,090
At 30 June 2015	1,824,808	1,371,057	872,154	(34,259)	(3,294,405)	739,355

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE, 2016

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Accumulated losses KShs'000	Total KShs'000
2016:					
At 1 July 2014	1,824,808	1,371,057	872,154	(4,716,054)	(648,035)
Total comprehensive income for the year					
Loss for the year	-	-	-	(3,600,289)	(3,600,289)
At 30 June 2016	1,824,808	1,371,057	872,154	(8,316,343)	(4,248,324)
2015:					
At 1 July 2015	1,327,133	1,090,015	887,633	(721,296)	2,583,485
Total comprehensive income for the year					
Loss for the year	-	-	-	(3,930,610)	(3,930,610)
Transactions with owners recorded directly in equity					
Proceeds from rights issue	497,675	398,140	-	-	895,815
Rights issue expenses	-	(117,098)	-	-	(117,098)
Transfer to accumulated losses	-	-	(15,479)	15,479	-
Dividends paid	-	-	-	(79,627)	(79,627)
	497,675	281,042	(15,479)	(64,148)	699,090
At 30 June 2015	1,824,808	1,371,057	872,154	(4,716,054)	(648,035)

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016 KShs'000	2015 KShs'000
Net cash flows from operating activities			
Loss before income tax		(2,671,497)	(3,513,064)
Adjustments for:			
Depreciation of property and equipment	18(a)	327,396	229,270
Depreciation on subsidiary property transferred	24	-	74,795
Change in fair value of investment property	18(b)	(100,000)	(100,000)
Loss of control of subsidiaries	34	389,074	-
Amortisation of intangible assets	19	5,968	8,444
Amortisation of subsidiary intangibles transferred	24	-	174
Intangible assets write off	19	279	-
Amortisation of prepaid operating lease	20	269	269
Prepaid operating lease write off	20	360	-
Impairment of property plant and equipment	18	99,764	-
Finance expense	14	411,119	335,854
Operating loss before working capital changes		(1,537,268)	(2,964,258)
Trade and other receivables		84,442	65,324
Inventories		641,357	410,211
Trade and other payables		825,321	1,292,085
Advance payments on sale of property	24	600,000	-
Deferred revenue		(4,280)	3,756
Cash outflows from operations		609,572	(1,192,882)
Tax paid	16	(942)	(9,280)
Net cash generated from/(used in) operating activities		608,630	(1,202,162)
Investing activities			
Purchase of property and equipment	18	(159,543)	(80,791)
Purchase of subsidiary property transferred	24	-	(112,385)
Purchase of intangible assets	19	(7,482)	(3,993)
Net cash used in investing activities		(167,025)	(197,169)
Financing activities			
Finance cost	14	(411,119)	(335,854)
Borrowing	30	875,040	-
Repayments of long term borrowings	30	(779,362)	(549,185)
Additional leases in the year	31	41,123	1,097,661
Repayment of lease obligation	31	(190,934)	(148,985)
Payment of dividend		-	(79,627)
Proceeds from rights issue		-	895,815
Rights issue expenses		-	(117,098)
Net cash (used in) /generated from financing activities		(465,252)	762,727
Net decrease in cash and cash equivalents		(23,647)	(636,604)
Cash and cash equivalents at the beginning of the year		(304,629)	149,571
Effect of exchange rate changes		-	182,404
Cash and cash equivalents at the end of the year	27	(328,276)	(304,629)

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016 KShs'000	2015 KShs'000
Net cash flows from operating activities			
Loss before income tax		(3,440,054)	(4,157,156)
Adjustments for:			
Depreciation of property and equipment	18(a)	327,396	229,270
Amortisation of intangible assets	19	5,968	8,444
Intangible assets adjustment	19	279	-
Amortisation of prepaid operating lease	20	269	269
Impairment of investment in subsidiary		-	204,929
Impairment of subsidiaries leases	12	408,542	-
Impairment of property and equipment	18	99,764	-
Prepaid operating lease write off	20	360	-
Finance expense	14	<u>411,119</u>	<u>173,545</u>
Operating loss before working capital changes		(2,186,357)	(3,540,699)
Trade and other receivables		45,992	64,238
Amounts due from related parties		-	1,072,409
Inventories		466,089	339,268
Trade and other payables		1,582,119	1,204,857
Advance payments on sale of property	24	600,000	-
Deferred revenue		<u>10,405</u>	<u>4,273</u>
Cash outflows from operations		518,248	(855,654)
Tax paid	16	(942)	(9,280)
Net cash used in operating activities		<u>517,306</u>	<u>(864,934)</u>
Investing activities			
Purchase of property and equipment	18	(159,543)	(80,791)
Purchase of intangible assets	19	(7,482)	(3,993)
Net cash used in investing activities		<u>(167,025)</u>	<u>(84,784)</u>
Financing activities			
Finance cost	14	(411,119)	(173,545)
Borrowing	30	875,040	-
Repayments of long term borrowings	30	(779,362)	(549,185)
Additional leases in the year	31	41,123	608,640
Repayment of lease obligation	31	(190,934)	(68,506)
Payment of dividend		-	(79,627)
Proceeds from rights issue		-	895,815
Rights issue expenses		-	(117,098)
Net cash (used in) /generated from financing activities		<u>(465,252)</u>	<u>516,494</u>
Net decrease in cash and cash equivalents		(114,971)	(433,224)
Cash and cash equivalents at the beginning of the year		(213,305)	219,919
Cash and cash equivalents at the end of the year	27	<u>(328,276)</u>	<u>(213,305)</u>

The notes on pages 35 to 73 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016

1. REPORTING ENTITY

Uchumi Supermarkets Limited (the “Company”) is a limited liability company incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya.

The company operates retail supermarkets in Kenya. The address of its registered office is as shown on page 1.

The Company's shares are listed on the Nairobi Securities Exchange and resumed trading at the Nairobi Securities Exchange from 31 May 2011 after being approved by the Capital Markets Authority. The shares had been suspended from trading at the Nairobi Securities 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.

2. BASIS OF PREPARATION

(a) Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenya Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis of accounting except for land and buildings and investment properties, which have been measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Kenya shillings (KShs), which is the Company's functional currency. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (KShs'000).

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

(e) Going Concern

The Group and company incurred net losses after tax of KShs 2,837 million and KShs 3,600 million during the year ended 30 June 2016 (2015 - KShs 3,421 million and KShs 3,931 million) respectively and, as of that date, the Group and company's current liabilities exceeded their current assets by KShs 4,768 million and KShs 4,635 million (2015 - KShs 3,403 million and KShs 2,601) respectively. In addition, the Group and company's total liabilities exceed their total assets by KShs 2,097 million and KShs 4,248 million (2015- Net assets KShs 739 million and net liability KShs 648 million) respectively. The Group and company also experienced shortage of suppliers during certain months of the year due to delayed payments to suppliers.

The directors have prepared the consolidated and company financial statements on a going concern basis since they are confident that the initiatives described below provide a reasonable expectation that the Group and company will be able to meet their liabilities as and when they fall due and will have adequate resources to continue in operational existence for the foreseeable future. The directors believe the initiatives below will improve the Group and Company's profitability, cash flows and liquidity position.

(i) Government funding- The company has had discussion on the revival plan of Uchumi Supermarket Limited which has been tabled in the Cabinet of the Government of Kenya. The Government has agreed to advance KShs 1.8 billion to enable the company return to profitability. KShs 1.2 billion will be used for Uchumi Supermarket Limited, while KShs 600 million will be used to settle subsidiaries liabilities. The turnaround plan is expected to take between 6 - 30 months. The first phase of the turnaround strategy seeks to stabilize the business through:

- Stringent financial management;
- closure of non-viable outlets;
- opening stores in the right locations;
- rationalization and competency assessment of staff;
- refurbishment of key branches to increase footfall;
- enriching supplier relationship management and
- Transformation of customer service delivery.

(ii) Franchising- The company has put in place plans to venture into Franchising as the vehicle to increased sales volume while transferring risks associated with the purchase and management of new sales outlets. The model will be executed by establishment of smaller outlets (Uchumi Express and Uchumi Mini) through which Uchumi Supermarket Limited will earn royalties of approximately 4% of the sales.

(iii) Strategic investor - The shareholders of the Company passed a resolution at its last Annual General Meeting authorizing the directors to identify and negotiate with any suitable investor to raise any sum up to a maximum of KShs 5 billion by way of debt capital through the issue of convertible debt instruments or by way of equity capital by way of private transfer of shares in Uchumi to the investor or a combination of both options. The investment shall be on terms determined to be suitable by the directors of Uchumi and tabled for ratification by the shareholders at the next annual general meeting (subject to any required regulatory approvals). Management is currently under discussions with potential investors.

(iv) Debt Restructuring - Uchumi Supermarket Limited has engaged NIC Capital for the planned debt restructuring arrangements.

(v) Sale of non-core property - A board resolution was passed on 9 May 2016 on the sale of assets that would generate cash flows for the entity. See Note 24 for details.

(vi) Negotiations with suppliers- Some of the company's critical suppliers have resumed supplies to the company and are supporting the company through a consignment basis and managing payments through an escrow account. The suppliers signed a deed of settlement 23 May 2016 which saw them resume supplies to Uchumi Supermarkets Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

BASIS OF PREPARATION - (CONTINUED)

(e) **Going Concern (continued)**

The Group and company's ability to continue as going concerns depend on the successful outcome of the directors' plans. These events and conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group and company's ability to continue as going concerns and, therefore, the Group and company may be unable to realize their assets and discharge their liabilities in the normal course of business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements have been applied consistently to all periods presented in these financial statements.

(a) **Basis of consolidation**

(i) *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisitions generally measured at fair value as are the net identifiable assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in the profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iii) *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) *Interest in equity-accounted investees*

The Group's interests in equity-accounted investees comprises interests in associates. Associates are those entities in which the Group has significant influence but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in that investee. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Transactions in foreign currencies

Transactions in foreign currencies during the year are converted into the respective functional currencies of Group entities at rates prevailing at the transaction dates. Monetary assets and liabilities denominated

in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are recognised in profit or loss in the year in which they arise. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated at the exchange rate ruling at the transaction date.

However, foreign currency differences arising from the translation of qualifying cash flow hedges (USD Borrowings) are recognised in other comprehensive income to the extent that the hedges are effective.

(c) Revenue recognition

Revenue from the sales of goods is 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. Revenue from the rendering of services is 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. Other operating revenue is recognised at the time the service is provided.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the Group's rights to receive payment as a shareholder have been established.

(d) Customer loyalty programme

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.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of the business including direct material costs and other overheads incurred to bring the asset to the existing location and condition. 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%

Nonfood items

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Inventories (continued)

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

(f) Property and equipment

(i) Recognition, measurement and subsequent expenditure

Land and buildings are initially measured at cost and then are subsequently measured at the fair value on the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Other categories of property and equipment are included in the financial statements at their historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of the property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in profit or loss.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(ii) Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount to their residual values over the estimated useful lives. The depreciation rates for the current and comparative year are 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)

The depreciation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(iii) Revaluation

Land and buildings are revalued every two years. The carrying amounts are adjusted to the revaluations and the resulting increase, net of deferred tax is recognised in other comprehensive income and presented in the revaluation reserve within equity.

Revaluation decreases that offset previous increases of the same asset are charged or recognised in other comprehensive income with all other decreases being charged to profit or loss.

Revaluation surpluses are not distributable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property and equipment (continued)

(iv) Non-depreciable items

These are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management. In the event of partially completed construction work that has necessitated advance or progress payments, or work-in-progress, depreciation will only commence when the work is complete. Fixed assets are classified as work-in-progress if it is probable that future economic benefits will flow to the Group and the cost can be measured reliably.

Amounts held within work in progress that are substantially complete, in common with other fixed assets, are assessed for impairment.

(g) Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on re-measurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property and equipment is no longer depreciated and any equity accounted investee is no longer equity accounted.

(h) Intangible assets - Capitalised software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete the development. Internally developed software is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only if the definition of an intangible asset and the recognition criteria are met. All other expenditure is expensed as incurred.

The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding five years. Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(i) Leased assets

(i) Finance lease

Leases of property and equipment, where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to the profit or loss over the lease period and is included under finance costs. Such property and equipment is depreciated over its useful life.

(ii) Operating lease

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

(i) Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is carried in the accruals as a payable and a movement in the year is recognised in profit or loss.

(iv) Defined contribution plan

The employees of the Group participate in a defined contribution retirement benefit scheme. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund in, which is a defined contribution scheme in Kenya. Contribution to the defined retirement benefit scheme is as follows:

- Kenya

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. In addition the company operates a provident fund scheme, where employees contribute 5% of their basic salaries and the employer contributes 7 %.

- Uganda

The employee contributes 5% while the Company contributes 10%

- Tanzania

Both employee and Company contribute 10%

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

(v) Staff gratuity

The Group has a gratuity arrangement for certain staff who are not covered by the defined contribution plan. Entitled staff are eligible for gratuity upon retirement/ leaving the Group based on their contracts.

(k) Taxation

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or other comprehensive income, in which case it is recognised in equity, or in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Taxation (continued)

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit. Deferred tax is not recognised on the initial recognition of goodwill as well as differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied on the temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(l) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprises cash in hand, bank balances and short term deposits net of bank overdrafts.

(m) Share capital

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects are recognised as a deduction to equity. Any premium received over and above the par value of the shares is classified as "share premium" in equity.

(n) Financial instruments

(i) Recognition

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The Group recognises loans and receivables on the date when they are originated. These assets are initially recognised at fair value plus any directly attributable transaction cost. All other financial assets and liabilities are recognised on the trade date which is the date on which the company becomes party to the contractual provisions of the financial instrument.

(ii) Classification

The Group classifies its financial assets into three categories as described below. Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial assets are appropriately classified.

Loans and receivables

Loans and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (Continued)

(ii) Classification (continued)

term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables comprise trade and other receivables and cash and bank balances.

These are measured at amortised cost using the effective interest method, less any impairment losses.

Other financial liabilities

Other financial liabilities are measured at amortised cost. These include trade and other payables, finance lease obligations, loans and borrowings and provisions for liabilities and charges.

(iii) Measurement

Financial instruments are measured initially at fair value, including transaction costs.

Subsequent to initial recognition, loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(iv) De-recognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished, cancelled or expires.

(v) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vi) Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(o) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment (Continued)

(i) Financial assets (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in an associate.

Associates are those entities in which the Group has significant influence, but not control, or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transactions cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees until the date on which significant influence ceases.

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(iii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, those that take substantial period of time to get ready for their intended use, are added to the cost of

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Borrowing costs (Continued)

those assets, until such time as the assets are substantially ready for their intended use. Other borrowing costs are recognised as an expense.

(r) Provisions for liabilities

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions for restructuring are recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(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. Impairment loss is recognised as an expense in the period in which the impairment is identified.

(t) Segment reporting

The group presents segmental information using geographical segments format. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (CEO). The CEO makes strategic decisions and is responsible for allocating resources and assessing performance of the operating segments and reflects the risks and earnings structure of the group. The Group operations are carried out in Kenya, Uganda and Tanzania but it lost control of Uganda and Tanzania operations during the year.

(u) Restructuring provisions

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and

number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

(v) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(w) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

(x) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations

(i) *New standards, amendments and interpretations effective and adopted during the year*

- Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for practical expedience, a company is permitted (but not

required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014.

The adoption of these amendments did not affect the amounts and disclosures of the Group as the Group does not have a defined benefit plan.

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016*

New standard or amendments	Effective for annual periods beginning on or after
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 (continued)*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these amendment will not affect the amounts and disclosures of the Group's transactions since the Group does not transact with associates or joint ventures.

- **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)**

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these amendment will not affect the amounts and disclosures of the Group since the Group does not have interests in joint operations.

- **Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)**

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted. The adoption of this amendment is not expected to have an impact on the financial statements of the Group since the group does not have bearer plants.

- **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 (continued)*

The Group does not apply revenue-based methods of depreciation or amortization therefore these amendments are not expected to have an effect on amounts and disclosures of the Group's property and equipment and intangible assets.

- **Equity Method in Separate Financial Statements (Amendments to IAS 27)**

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of this amendment will not affect the amounts and disclosures of the Group, since the Group does not have significant interests in other entities.

- **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the Group given that it is not a first time adopter of IFRS.

- **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

- **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) - continued**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 (continued)*

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

The adoption of the amendments does not have a significant impact on the financial statements of the Group as it does not have significant interests in associates and joint ventures.

- Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard.

- IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance

obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The Group is currently in the process of evaluating the potential effect of this standard.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 (continued)*

- IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
- (b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- (c) separate the total amount of cash paid into a principal portion (presented within financing

activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

- (a) short-term leases (i.e. leases of 12 months or less) and;
- (b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The Group is currently in the process of evaluating the potential effect of this standard.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes below:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates

(i) *Property and equipment and intangible assets*

Useful life of assets

Critical estimates are made by directors in determining the useful lives of property and equipment based on the intended use and economic lives of those assets.

Intangible assets - Capitalised software

Critical estimates are made by management to determine the period over which to amortise both purchased and internally developed software.

(ii) *Revaluation of land and buildings*

Certain items of property and equipment are measured at revalued amounts. The fair value is determined based on the market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(iii) *Taxation*

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax

outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iv) *Trade receivables*

The Group assesses its trade receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

(v) *Fair value of financial instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within profit or loss or within other comprehensive income until the instrument is sold or becomes impaired.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in the Fair Value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates (continued)

(v) Fair value of financial instruments (continued)

- liability, either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, the directors have made judgments in determining:

- the classification of finance and operating leases
- whether financial and non-financial assets are impaired
- the assessment of going concern assumptions.
- The assessment of contingent liabilities

5 FINANCIAL RISK MANAGEMENT

The Group carries out its activities in an extremely dynamic, and often highly volatile, commercial environment. Therefore, both opportunities and risks are encountered as part of everyday business for the Group. The Group's ability to recognise, successfully control and manage risks early in their development and to identify and exploit opportunities is key to its ability to successfully realise the corporate vision.

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

Changing market conditions expose the Group to various financial risks and management have highlighted the importance of financial risk management as an element of control for the Group. The policy of the Group is to minimise the negative effect of such risks on cash flow, financial performance and equity.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Group's Risk Management Framework

The Company's board of directors has overall responsibility for the establishment of an oversight of the Group's risk management framework. The board of directors has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to risks faced by the Group. The Risk and Compliance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's Risk Management Framework (Continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as changes in interest rates or foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing returns.

(i) Interest rate risk

The Group's exposure to market risk due to 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 ICDC and based on lending covenants entered into with the company. The balances outstanding as at 30 June 2016 are disclosed under Note 30.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at year end. The analysis was prepared using the following assumptions:

- Interest-bearing liabilities outstanding as at 30 June 2016 were outstanding at those levels for the whole year; and
- All other variables are held constant.

If interest rates on bank overdraft had been 3 percent higher or lower, the group's net profit for

the year ended 30 June 2016 and equity as at 30 June 2016 would increase or decrease by KShs 7 million (2015 – KShs 21 million)

If interest rates on bank overdraft had been 3 percent higher or lower, the company's net loss for the year ended 30 June 2015 would increase or decrease by KShs 7 million (2015 – KShs 19 million).

All other borrowings besides bank overdrafts are subject to fixed rates. In light of this, the directors are of the opinion that any sensitivity analysis with respect to the interest rate risk would be unrepresentative.

(b) Credit risk

The largest concentration of credit exposure within the group relates 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 group's credit risk.

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

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Bank balance	181,929	134,676	181,929	121,945
Trade receivables	87,123	60,833	87,123	54,273
Amounts due from related parties	-	-	133,103	133,104
	269,052	195,509	402,155	309,322

The directors believe that the unimpaired amounts that are past due are still collectible in full based on historic payment behaviour and extensive analysis of customer credit risk.

The movement in allowance for credit losses has been disclosed at Note 25.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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 analysed into relevant maturities based on remaining period to end of the contractual maturity date is as below. The amounts are gross and undiscounted and include interest payments.

Group	Less than 1 year KShs'000	Between 1 – 5 years KShs'000	Total KShs'000
At 30 June 2016			
Trade and other payables	4,684,639	-	4,684,639
Bank overdraft	510,205	-	510,205
Term loans	298,569	63,141	361,710
Obligation under finance lease	310,335	488,530	798,585
Interest payable on term loans	21,783	4,117	25,900
Interest payable on leases	92,609	155,696	248,305
	5,918,140	711,484	6,629,624
At 30 June 2015			
Trade and other payables	3,859,318	-	3,859,318
Bank overdraft	439,305	-	439,305
Term loans	266,032	-	266,032
Obligation under finance lease	565,732	382,944	948,676
	5,130,387	382,944	5,513,331
Company			
At 30 June 2016			
Trade and other payables	4,684,639	-	4,684,639
Bank overdraft	510,205	-	510,205
Term loans	298,569	63,141	361,710
Obligation under finance lease	310,335	488,530	798,865
	5,803,748	551,671	6,355,419

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Company At 30 June 2015	Less than 1 year KShs'000	Between 1 – 5 years KShs'000	Total KShs'000
Trade and other payables	3,102,520	-	3,102,520
Bank overdraft	335,250	-	335,250
Term loans	266,032	-	266,032
Obligation under finance lease	157,190	382,944	540,134
	3,860,992	382,944	4,243,936

(d) Equity price risk

The company is not exposed to equity securities price risk since it does not have investments in quoted equity.

(e) 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 equity or sell assets to reduce debt. The group manages the following components as part of capital:

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Share capital	1,824,808	1,824,808	1,824,808	1,824,808
Reserves	(3,922,185)	(1,085,453)	(6,073,132)	(2,472,843)
	(2,097,377)	739,355	(4,248,324)	(648,035)

6. FAIR VALUE HIERARCHY

(a) Analysis of all assets and liabilities measured at fair value

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable at their carrying amounts.

- Level 1- fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 -fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices);and
- Level 3 -fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

6. FAIR VALUE HIERARCHY (CONTINUED)

(a) Analysis of all assets and liabilities measured at fair value (continued)

The table below shows the valuation technique used in level 3 fair value as well as significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
1. Property and equipment (buildings and land)	<i>Market approach:</i> The valuation model uses prices and other relevant information generated by market transactions involving identical or similar assets. The fair value is determined as the price that would be paid to sell the land in an orderly transaction to market participants.	1. Property prices in the locality.	The estimated fair values would increase/ (decrease);
2. Investment property-Land		2. Infrastructure developments	1. If property prices near the location of the property were higher/ (lower). 2. With improvements/ (deterioration) in infrastructure development.

Group	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000
30 June 2016			
Property and equipment	-	-	481,334
Investment property	-	-	2,400,000
	-	-	2,881,334
30 June 2015			
Property and equipment	-	-	1,473,923
Investment property	-	-	2,300,000
	-	-	3,773,923

Company	2016 KShs'000	2015 KShs'000
Property and equipment	481,334	1,473,923

Property and equipment is classified under level 3 in the hierarchy.

(i) Investment property and freehold land and buildings

The Group/company's freehold land and buildings were revalued at 30 June 2015, while the investment property was valued at 30 June 2016. The valuations were based on market value.

The significant unobservable inputs used in the fair value measurement of the company's property and buildings are price per acre, estimated rental value per sqm per month and capital expenditure for similar property. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

6. FAIR VALUE HIERARCHY (CONTINUED)

(a) Analysis of all assets and liabilities measured at fair value (continued)

(i) Investment property and freehold land and buildings

Fair value of the freehold land and buildings and investment property was determined by using market comparable method or the depreciated replacement cost where market comparable was not available. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property. The valuations were performed by Kiragu and Mwangi associates, an accredited independent valuer.

The valuers applied the depreciated replacement cost method to reflect the current market values of the buildings. The current replacement cost of all the improvements, including professional fees, were depreciated on the basis of age, use, condition, maintenance and obsolescence. The gross replacement cost was estimated to be the total cost to construct, at current prices, as of the effective date of the valuation, a duplicate or replica of the building using the materials, construction standards, design, layout and quality of workmanship specified in the existing building construction plans and specifications.

The gross replacement cost of the buildings was determined using a reasonable current replacement cost depending on construction, function, location and required specification of the building as guided by the Ministry of Public Works and as per cost utilised by quantity surveyors in the building industry.

The fair value of this land was determined by using market comparable method. The fair value of the buildings, plant and machinery was determined by using market comparable method or the depreciated replacement cost where the market comparable method was not available. The depreciated replacement cost is the cost of acquiring, and installing a new or modern substitute asset having the same production capacity as that applied to assets which are part of an operating concern and assumes adequate profitability.

The carrying amounts of the freehold land and buildings were adjusted to the revalued amounts and the resultant surplus net of deferred income tax was credited to the revaluation surplus in equity. The investment property is on LR No. 25544 and measures 19.7333 acres while the freehold land and buildings are on LR No. 209/399/3 and LR No 206/12593 measures 2.5 and 3.7 acres respectively.

(b) Fair value of the Group and Company financial instruments

The group has not disclosed the fair value of short term financial assets and financial liabilities as management assessed that the fair value of short term financial liabilities and financial assets such as cash, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

7.	SALES	2016	Group 2015	2016	Company 2015
		KShs'000	KShs'000	KShs'000	KShs'000
	Food	4,477,267	8,219,327	4,477,267	7,587,153
	Personal care	1,231,020	2,580,074	1,231,020	2,318,396
	General merchandise	620,349	1,667,122	620,349	1,351,279
	Textiles	74,301	422,451	74,301	132,876
		6,402,937	12,888,974	6,402,937	11,389,704

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

8.	COST OF SALES	Group		Company	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
	Food	3,704,616	7,030,928	3,704,616	6,437,904
	Personal care	1,005,667	2,163,363	1,005,667	1,954,774
	General merchandise	684,060	1,298,017	684,060	1,098,751
	Textiles	55,856	324,505	55,856	101,137
		5,450,199	10,816,813	5,450,199	9,592,566

9.	OTHER INCOME				
	Promotions income	131,042	91,676	131,042	89,707
	Specialty shop income	162,719	202,954	162,719	171,588
	Miscellaneous income*	40,765	150,442	40,765	137,857
	Interest receivable	-	5,538	-	5,538
		334,526	450,610	334,526	404,690

*Miscellaneous income includes receipts from rental and financial services offered.

10	ADMINISTRATION AND ESTABLISHMENT EXPENSES	Group		Company	
		2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
	Staff costs	1,390,069	1,756,215	1,390,069	1,374,120
	Establishment costs	424,391	738,019	424,391	497,682
	Rent expense	552,793	794,234	552,793	512,973
	Computer expenses	29,706	33,019	29,706	21,808
	Motor running expenses	22,748	35,075	22,748	34,556
	Auditors' remuneration	15,528	16,080	15,528	12,000
	Consultancy fees	130,545	47,240	130,545	31,138
	Credit card commission	21,222	42,776	21,222	42,622
	Bank charges and commission	24,660	65,527	24,660	52,715
	Amortisation of intangible assets	5,969	8,618	5,969	8,444
	Amortisation of operating lease rentals	269	269	269	269
	Depreciation of property and equipment	327,396	304,065	327,396	229,270
	Impairment of other receivables	-	408,978	-	198,818
	General expenses	293,540	418,325	293,540	367,352
		3,238,836	4,668,440	3,238,836	3,383,767

Staff costs include:

Salaries	966,526	1,320,530	966,526	745,802
Medical	54,764	65,396	54,764	53,851
Pension	58,824	55,029	58,824	54,334
Other	309,955	315,260	309,955	520,133
	1,390,069	1,756,215	1,390,069	1,374,120

General expenses include:

Internet, postage and stationary	13,171	15,800	13,171	13,201
Subscriptions and newspapers	4,157	4,875	4,157	3,541
Packaging materials	98,454	186,500	98,454	165,299
Laundry	13,865	14,151	13,865	14,131

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)
10. ADMINISTRATION AND ESTABLISHMENT EXPENSES (Continued)

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Licences	14,471	22,025	14,471	16,023
Branch and office expenses	67,553	63,155	67,553	55,195
Generator fuel	10,422	15,105	10,422	11,973
Distribution expenses	11,892	13,150	11,892	7,146
Branch closure expenses	7,576	-	7,576	-
Non-deductible input tax	43,141	64,884	43,141	64,884
Pest control	3,302	10,150	3,302	8,618
Other expenses	5,536	8,530	5,536	7,341
	293,540	418,325	293,540	367,352

11. SELLING AND DISTRIBUTION

Marketing expenses	52,996	148,111	52,996	118,861
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12. IMPAIRMENT OF SUBSIDIARIES BALANCES

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Inter-company balances				
- Uchumi Uganda	-	-	168,878	1,144,358
- Uchumi Tanzania	-	-	4,371	555,023
Finance lease obligation on Subsidiaries (Note 31)	-	-	408,542	-
	-	-	581,791	1,699,381

13. PROVISIONS AND WRITE OFFS

	Group and Company	
	2016	2015
	KShs'000	KShs'000
KPLC sales receivable	25,582	-
Impairment of property and equipment	99,764	-
Provision for doubtful debts	146,898	-
Other provisions and write offs*	194,538	1,049,037
	466,782	1,049,037

*Balances written off mainly relate to unreconciled differences between the accounts payables general ledger and the sub ledger.

14. FINANCE COSTS

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on lease obligation	162,605	92,615	162,605	78,183
Interest on loans and overdraft	248,514	243,239	248,514	95,362
	411,119	335,854	411,119	173,545

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)
15. LOSS BEFORE TAX

The loss before tax is stated after charging:

Impairment of subsidiary balances	-	-	581,791	1,699,381
Impairment of other receivables	-	408,978	-	198,818
Interest expense	411,119	335,854	411,119	173,545
Depreciation on property and equipment	327,396	304,065	327,396	229,270
Amortisation of intangible assets	5,969	8,618	5,969	8,444
Amortisation of operating lease rentals	269	269	269	269
Auditors' remuneration	15,000	16,080	15,000	12,000
Directors' emoluments:				
- As executives	23,945	26,450	23,945	26,450
- As directors	7,327	3,329	7,327	3,329

16. TAXATION

(a) Statement of financial position	Group			Company
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<i>Income tax payable/ (recoverable)</i>				
Balance at 1 July	16,242	(3,747)	(3,457)	1,191
Tax charge for the year	7,242	28,724	7,242	4,632
Loss of control transfer (Note 34)	(19,699)	-	-	-
Exchange differences	-	545	-	-
Tax paid during the year	(942)	(9,280)	(942)	(9,280)
At 30 June	<u>2,843</u>	<u>16,242</u>	<u>2,843</u>	<u>(3,457)</u>
Presented as follows:				
Tax recoverable	-	(3,457)	-	(3,457)
Tax payable	<u>2,843</u>	<u>19,699</u>	<u>2,843</u>	<u>-</u>
	<u>2,843</u>	<u>16,242</u>	<u>2,843</u>	<u>(3,457)</u>
(b) Income statement	Group			Company
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Current tax:				
- Current year	8,433	28,724	8,433	4,632
- Prior year overprovision	(1,191)	-	(1,191)	-
	<u>7,242</u>	<u>28,724</u>	<u>7,242</u>	<u>4,632</u>
Deferred tax (Note 22(b)):				
- Current year movement	5,000	(120,428)	-	(231,178)
- Current year derecognised	<u>152,993</u>	<u>-</u>	<u>152,993</u>	<u>-</u>
	<u>157,993</u>	<u>(120,428)</u>	<u>152,993</u>	<u>(231,178)</u>
Income tax credit	<u>165,235</u>	<u>(91,704)</u>	<u>160,235</u>	<u>(226,546)</u>
Accounting loss before tax	(2,671,497)	(3,513,064)	(3,440,053)	(4,157,156)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)
10 TAXATION (Continued)
(b) Income statement

	Group			Company
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Tax calculated at tax rate of 30%				
- Business income	(809,875)	(1,058,551)	(1,040,442)	(1,251,779)
- Rental income	8,426	4,632	8,426	4,632
Tax effect of items not deducted for	33,683	962,215	259,250	1,020,601
Prior year overprovision				
- Current tax	(1,191)	-	(1,191)	-
Unrecognised deferred tax (Note 22(a))	934,192	-	934,192	-
	165,235	917,04	160,235	(226,546)

17. EARNINGS PER SHARE

The earnings per share are calculated on the profit after tax and on the number of ordinary shares in issue during the year. There are no instruments that have a dilutive effect on earnings.

	Group			Company
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Loss for the year	(2,836,732)	(3,421,360)	(3,600,289)	(3,930,610)
Number of ordinary shares	364,962	364,962	364,962	364,962
Loss per share – KShs	(7.77)	(9.37)	(9.86)	(10.77)

18. PROPERTIES
(a) Property and equipment

Group and Company	Buildings and freehold land	Improvements	Vehicles and		
At 30 June 2016:	KShs '000	to premises KShs' 000	Machinery KShs'000	equipment KShs'000	Total KShs'000
Cost or valuation					
At 1 July 2015	1,500,000	380,272	666,892	1,146,284	3,693,448
Asset held-for-sale (Note 24)	(1,000,000)	-	-	-	(1,000,000)
Additions	-	19,490	42,209	97,844	159,543
Impairments	300	2,579	(90,851)	(11,792)	(99,764)
At 30 June 2016	500,300	402,341	618,250	1,232,336	2,753,227
Depreciation					
At 1 July 2015	26,077	277,417	425,416	808,581	1,537,491
Asset held-for-sale (Note 24)	(22,472)	-	-	-	(22,472)
Charge for the year	15,361	21,123	91,548	199,364	327,396
At 30 June 2016	18,966	298,540	516,964	1,007,945	1,842,415
Carrying Amount					
At 30 June 2016	481,334	103,801	101,285	224,391	910,812

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

18. PROPERTIES (CONTINUED)

(a) Property and equipment (continued)

	Buildings and freehold land KShs '000	Improvements to premises KShs' 000	Machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
At 30 June 2015:					
Cost or valuation					
At 1 July 2014	1,500,000	357,952	652,938	1,101,767	3,612,657
Additions	-	22,320	13,954	44,517	80,791
At 30 June 2016	1,500,000	380,272	666,892	1,146,284	3,693,448
Depreciation					
At 1 July 2015	-	266,694	356,853	684,674	1,308,221
Charge for the year	26,077	10,723	68,563	123,907	229,270
At 30 June 2016	26,077	277,417	425,416	808,581	1,537,491
Carrying Amount					
At 30 June 2015	1,473,923	102,855	241,476	337,703	2,155,957

Property and equipment with a carrying amount of KShs 481,334,000 (2015 - KShs 487,618,000) has been pledged as security against the ICDC loan disclosed under Note 30.

Buildings and freehold land were last valued on 30 June 2015 by Kiragu & Mwangi Limited, independent professional valuers. Valuations were made on the basis of open market value for the existing use.

If property and equipment were carried at cost, the carrying amount would be as follows:

	Group		Company	
	2016 KShs '000	2015 KShs '000	2016 KShs '000	2015 KShs '000
Cost	271,084	271,084	186,084	184,084
Accumulated depreciation	(49,777)	(45,608)	(49,777)	(45,608)
Carrying amount	<u>221,307</u>	<u>225,476</u>	<u>136,307</u>	<u>138,476</u>

(b) Investment property

Group	2016 KShs'000	2015 KShs'000
As at 1 July	2,300,000	2,200,000
Change in fair value during the year	<u>100,000</u>	<u>100,000</u>
As at 30 June	<u>2,400,000</u>	<u>2,300,000</u>

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.2.4 billion (2015- KShs 2.3 billion) by Kiragu & Mwangi Limited, accredited independent valuers, as at 30 June 2016. The present value of the ground rent obligations is immaterial and has been ignored.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

18. PROPERTIES (CONTINUED)

(b) Investment property (continued)

The investment property is a subject of various court cases over its ownership. The status of the cases has been disclosed at Note 37. The directors have not made an impairment provision for the asset as they strongly believe they have a strong case

19. INTANGIBLE ASSETS

	Company	
	2016 KShs'000	2015 KShs'000
Cost		
At 1 July	74,405	70,412
Additions	7,482	3,993
Adjustment	<u>296,046</u>	<u>-</u>
At 30 June	<u>377,933</u>	<u>74,405</u>
Amortisation		
At 1 July	66,578	58,134
Additions	5,968	8,444
Adjustment	<u>296,325</u>	<u>-</u>
At 30th June	<u>368,871</u>	<u>66,578</u>
Net carrying amount At 30th June	<u>9,062</u>	<u>7,827</u>

20. PREPAID OPERATING LEASES

At 1 July	18,932	19,201
Adjustment	(360)	-
Amortisation for the year	<u>(269)</u>	<u>(269)</u>
At 30 June	<u>18,303</u>	<u>18,932</u>

Prepaid operating leases 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 79 years. The leasehold land is subject to a first charge as disclosed in note 15

21. INVESTMENT IN SUBSIDIARIES

	Country of incorporation	Shareholding	2016 KShs'000	2015 KShs'000
Uchumi Supermarkets (Uganda) Limited	Uganda	100%	204,929	204,929
Less: Impairment			(204,929)	(204,929)
Uchumi Supermarkets (Tanzania) Limited	Tanzania	100%	-	-
Uchumi Holdings Limited	Kenya	100%	-	-
Kasarani Mall Limited	Kenya	100%	<u>200</u>	<u>200</u>
			<u>200</u>	<u>200</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

22. DEFERRED TAX

(a) Unrecognised deferred tax asset

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Kenyan Income Tax laws allow for carry forward of tax losses for a maximum period of 9 years following the year they arose. The accumulated tax losses will be utilised to offset future taxable profits.

The group did not recognise deferred tax asset in the financial statements since future taxable income are not sufficient to enable the benefits from the deductions.

Group and Company

At 30 June 2016	1 July KShs'000	Movement through profit or loss KShs'000	30 June KShs'000
Tax losses carried forward	-	965,294	965,294
Property and equipment	-	101,646	101,646
Revaluation reserve	-	(305,912)	(305,912)
Other temporary differences	-	173,164	173,164
Net deferred tax asset	-	934,192	934,192

At 30 June 2015

Unrecognised deferred tax asset	-	-	-
--	---	---	---

(b) Recognised deferred tax asset

Group

At 30 June 2016	1 July KShs'000	Derecognised KShs'000	Movement through profit or loss KShs'000	30 June KShs'000
Tax losses carried forward	318,764	(318,764)	-	-
Property and equipment	83,506	(83,506)	-	-
Revaluation reserve	(305,912)	305,912	-	-
Investment property- fair value	(110,750)	-	(5,000)	(115,750)
Other temporary differences	56,635	(56,635)	-	-
Net deferred tax asset	42,243	(152,993)	(5,000)	(115,750)

At 30 June 2015	1 July KShs'000	Derecognised KShs'000	Movement through profit or loss KShs'000	30 June KShs'000
Tax losses carried forward	126,999	-	191,765	318,764
Property and equipment	74,633	-	8,873	83,506
Revaluation reserve	(305,912)	-	-	(305,912)
Investment property- fair value	-	-	(110,750)	(110,750)
Other temporary differences	26,095	-	30,540	56,635
Net deferred tax (liability)/asset	(78,185)	-	120,428	42,243

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)
22. DEFERRED TAX (CONTINUED)
(b) Recognised deferred tax asset (continued)

Presented in the statement of financial position as below:

	2016 KShs '000	2015 KShs '000
Deferred tax assets	-	152,993
Deferred tax liabilities	(115,750)	(110,750)
Net deferred tax (liability)/ asset	(115,750)	42,243

Company

At 30 June 2016	1 July KShs'000	Derecognised KShs'000	Movement through profit or loss KShs'000	30 June KShs'000
Tax losses carried forward	318,764	(318,764)	-	-
Property and equipment	83,506	(83,506)	-	-
Revaluation reserve	(305,912)	305,912	-	-
Other temporary differences	56,635	(56,635)	-	-
	152,993	(152,993)	-	-

At 30 June 2015

Tax losses carried forward	126,999	-	191,765	318,764
Property and equipment	74,633	-	8,873	83,506
Revaluation reserve	(305,912)	-	-	(305,912)
Other temporary differences	34,040	-	22,595	56,635
	(70,240)	-	223,233	152,993

Tax losses

The Group and Company has tax losses carried forward of KShs 3,683,171,014 (2015 KShs 1,522,946,152). The tax losses expire within 9 years following the year they arose under the current tax legislations. The aging of tax losses was as below at 30 June 2016.

Year of origin	Amount KShs	Expiry
2010	465,525,069	2019
2015	1,057,421,083	2024
2016	2,160,224,862	2015

3,683,171,014

	Group			Company
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
23 INVENTORIES				
Food	107,931	395,333	107,931	279,536
Non-food	203,099	580,354	203,099	486,483
Other	18,806	30,644	18,806	29,906
	329,836	1,006,331	329,836	795,925
Stock provision	(48,186)	(83,324)	(48,186)	(48,186)
	281,650	923,007	281,650	747,739

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

23 INVENTORIES (CONTINUED)

The stock provision amount was recognized as an expense for inventories carried at the lower of cost and net realisable value. This is recognised in cost of sales. An impairment of KShs 5,022,471 (2015 – Nil) on inventory balances was recognised in profit or loss during the year. Other inventory relate to packaging materials and empties and crates.

Inventory amounting to KShs 5,450,199,000 (2015 – KShs 9,592,566,000) was expensed during the year under Note 8.

24 NON-CURRENT ASSETS HELD FOR SALE

On 9 May 2016, the Ngong Hyper freehold land and buildings valued at KShs 1 billion and with accumulated depreciation of KShs 22 million was approved for sale at a price of KShs 1.2 billion. The sale was completed on 13 September 2016. As at 30 June 2016, the carrying amount was transferred to non-current asset held for sale. A deposit of KShs 600 million was received as at 30 June 2016 and the balance cleared by 13 September 2016.

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
At 1 July	408,773	-	-	-
Loss of control (Note 34)*	(408,773)	-	-	-
Reclassified during the year	1,000,000	408,773	1,000,000	-
Accumulated depreciation	(22,472)	-	(22,472)	-
	<u>977,528</u>	<u>408,773</u>	<u>977,528</u>	<u>-</u>

*The 2015 balance relates to subsidiaries property and equipment and intangible assets classified as held for sale at 30 June 2015. The balance was net of additions to property, depreciation expense and amortisation of intangible asset of KShs 112,385,000, KShs 74,765,000 and KShs 174,000 respectively.

25 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Trade receivables	87,123	60,833	87,123	54 273
Prepayments and others	135,809	246,541	135,809	214,651
At 30 June	<u>222,932</u>	<u>307,374</u>	<u>222,932</u>	<u>268,924</u>

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
<i>Ageing of trade receivables</i>				
Neither past due nor Impaired	68,410	39,939	68,410	25,303
Past due not impaired	31,332	15,748	31,332	25,559
Impaired - Over 60 days	48,286	31,546	48,286	26,520
	148,028	87,233	148,028	77,382
Allowances for credit losses	(60,905)	(26,400)	(60,905)	(23,109)
	<u>87,123</u>	<u>60,833</u>	<u>87,123</u>	<u>54,273</u>
<i>Movement in credit losses</i>				
At 1 July	26,400	28,650	23,109	24,698
Unused amounts reversed	(3,291)	(2,250)	-	(1,589)
Amount increased	37,796	-	37,796	-
	<u>60,905</u>	<u>26,400</u>	<u>60,905</u>	<u>23,109</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

25 TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

26 RELATED PARTY TRANSACTIONS

	Group and Company	
	2016 KShs'000	2015 KShs'000
(a) Inter-company		
Uchumi Supermarkets (Uganda)	125,176	939,429
Less impairment (Note 12)	(125,176)	(939,429)
Uchumi Supermarkets (Tanzania)	4,371	555,024
Less impairment (Note 12)	(4,371)	(555,024)
Kasarani Mall Ltd	<u>133,103</u>	<u>133,103</u>
	<u>133,103</u>	<u>133,103</u>

The balance due from Uchumi Supermarkets (Uganda) Limited and Uchumi Supermarkets (Tanzania) Limited relates to expenses paid by the parent on behalf of the subsidiaries and working capital requirements disbursed to the subsidiaries. The balance due from Kasarani Mall Limited relates to purchase and maintenance costs of the investment property.

(b) Related party purchases	2016 KShs'000	2015 KShs'000
Sitatunga	48,973	-

(c) Related party loans	2016 KShs'000	2015 KShs'000
ICDC - Loan (Note 30)	116,032	116,032
Interest paid on ICDC loan	<u>-</u>	<u>28,678</u>

Industrial and Commercial Development Corporation (ICDC) owns 2% of the shares in Uchumi Supermarket Limited.

The interest on the loan from ICDC is at the base rate (currently 16%). The ICDC loan is to be repaid on a quarterly basis over a period of three years without a moratorium period.

(d) **Related party sales**

There were no related party sales by Uchumi supermarkets Limited.

(e) Directors emoluments	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
As executives	23,945	26,450	23,945	26,450
As directors	7,327	3,329	7,327	3,329

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

27 CASH AND CASH EQUIVALENT

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

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Bank and cash balances	181,929	134,676	181,929	121,945
Bank overdraft	(510,205)	(439,305)	(510,205)	(335,250)
	<u>(328,276)</u>	<u>(304,629)</u>	<u>(328,276)</u>	<u>(213,305)</u>

The overdraft was issued by Kenya Commercial Bank and is secured by a first charge on freehold property Land Reference Number 209/399/3.

Weighted average effective interest rate at year end: 17.99% 18.0%

28. SHARE CAPITAL

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 equity or sell assets to reduce debt.

	2016	2015
	KShs'000	KShs'000
Authorised:		
500,000,000 ordinary shares of KShs 5 each	2,500,000	2,500,000
25,000,000 redeemable preference shares of KShs 20 each	<u>500,000</u>	<u>500,000</u>
	<u>3,000,000</u>	<u>3,000,000</u>

At 30 June 2016 and 2015, there were 25,000,000 authorized but not issued redeemable preference shares. Each share has a par value of KShs 20.

	Group		Company	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Issued and fully paid				
364,961,594 ordinary shares of KShs 5 each	<u>1,824,808</u>	<u>1,824,808</u>	<u>1,824,808</u>	<u>1,824,808</u>

29. RESERVES

Retained earnings-(deficit)	(6,165,396)	(3,294,405)	(8,316,343)	(4,716,054)
Share premium	1,371,057	1,371,057	1,371,057	1,371,057
Revaluation reserve	872,154	872,154	872,154	872,154
Translation reserve	-	(34,259)	-	-
	<u>(3,922,185)</u>	<u>(1,085,453)</u>	<u>(6,073,132)</u>	<u>(2,472,843)</u>

Share premium

The share premium arose from issuance of shares at a premium as shown below

Year of issue	Number of shares	Premium per share (KShs)	Share premium KShs'000
2014	99,534,980	4	398,140
2011	85,426,614	5	427,133
2005	120,000,000	4.5	545,784
			<u>1,371,057</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

29. RESERVES (CONTINUED)

Revaluation reserve

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

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of foreign operations

30. LOANS

	Group and Company	
	2016	2015
	KShs'000	KShs'000
Non-current		
United Bank of Africa (UBA)	63,141	-
Current		
United Bank of Africa (UBA)	182,537	150,000
Industrial and Commercial Development Corporation (ICDC)	116,032	116,032
	<u>298,569</u>	<u>266,032</u>
Total borrowings	<u>361,710</u>	<u>266,032</u>

The movement in term loans during the year was as follows

At 1 July	266,032	815,217
Additions	875,040	-
Repayments	(779,362)	(549,185)
At 30 June	<u>361,710</u>	<u>266,032</u>

The Company has an existing loan from Industrial and Commercial Development Corporation (ICDC) advanced in 2013 at a fixed rate of 16%. The ICDC loan is to be repaid on a quarterly basis over a period of three years without a moratorium period.

ICDC loan is secured by a first charge on leasehold property Land Reference number 209/12593 (Langata Hyper, Langata road).

The UBA Loan advanced in 2015 is secured by a charge on freehold property Land Reference Number 209/12593 (Langata Hyper, Langata road) for KShs 250 million ranking pari passu with the charge securing facilities over the same property issued in favour of ICDC.

Weighted average effective interest rate at year end:

Term loan	18.00%	15.5%
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31. OBLIGATIONS UNDER FINANCE LEASE

The group has commercial leases on property plant and machinery. These leases have an average life of over four years. There are no restrictions placed on the group by entering into these leases. Future minimum payments under the finance leases together with the present value of the net minimum lease payments are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

31 OBLIGATIONS UNDER FINANCE LEASE (CONTINUED)

Group:	2016		2015	
	Minimum payments KShs'000	Present value of lease payments KShs'000	Minimum payments KShs'000	Present value of lease payments KShs'000
Within one year	402,944	310,335	856,728	565,732
After one year but not more than five years	<u>644,225</u>	<u>488,530</u>	<u>449,855</u>	<u>382,944</u>
Total minimum lease payments	1,047,169	<u>798,865</u>	1,306,583	<u>948,676</u>
Less amounts representing finance charges	(248,304)		(357,907)	
Total obligation		<u>798,865</u>		<u>948,676</u>

Company:	2016		2015	
	Minimum payments KShs'000	Present value of lease payments KShs'000	Minimum payments KShs'000	Present value of lease payments KShs'000
Within one year	402,944	310,335	263,587	157,190
After one year but not more than five years	<u>644,225</u>	<u>488,530</u>	<u>449,855</u>	<u>382,944</u>
Total minimum lease payments	1,047,169	<u>798,865</u>	713,442	<u>540,134</u>
Less amounts representing finance charges	(248,304)		(173,308)	
Total obligation		<u>798,865</u>		<u>540,134</u>

The interest rate applicable to the above leases is variable and was an average 18.16% over the period, which is the rate used by the lessor to determine the periodic lease payments. The movement in lease obligation (excluding interest) during the year was as below:

Movement in the year summarised	Group		Company	
	2016 KShs '000	2015 KShs '000	2016 KShs '000	2015 KShs '000
At 1 July	948,676	-	540,134	-
Additions in the year	41,123	1,097,661	41,123	608,640
Transfer from subsidiaries	-	-	408,542	-
Repaid in the year	(190,934)	(148,985)	(190,934)	(68,506)
At 30 June	<u>798,865</u>	<u>948,676</u>	<u>798,865</u>	<u>540,134</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)
32. TRADE AND OTHER PAYABLES

Group	Company 2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Trade payables	4,189,941	3,447,485	4,189,941	2,810,033
Accrued expenses	92,749	144,851	92,749	70,752
Others	401,949	266,982	401,949	221,735
	<u>4,684,639</u>	<u>3,859,318</u>	<u>4,684,639</u>	<u>3,102,520</u>

33. DEFERRED REVENUE

	Group 2016 KShs'000	2015 KShs'000	Company 2016 KShs'000	2015 KShs'000
At 1 July	29,861	26,105	15,176	10,903
Deferred during the year	34,611	69,880	34,611	69,880
Released to profit or loss	(24,206)	(65,607)	(24,206)	(65,607)
Exchange difference	-	(517)	-	-
Released on loss of control	(14,685)	-	-	-
	<u>25,581</u>	<u>29,861</u>	<u>25,581</u>	<u>15,176</u>

Deferred revenue is the fair value of the consideration received from customer's loyalty points.

34. LOSS OF CONTROL OF SUBSIDIARIES

The Group lost control of its subsidiaries, Uchumu Supermarkets (Uganda) Limited (USUL) and Uchumi Supermarkets (Tanzania) Limited (USTL) in October 2015 when they were placed under receivership. The subsidiaries were placed under the control of a liquidator and receiver manager. The group has recognised a gain on loss of control of the subsidiaries in the profit or loss as shown below:

At 31 October 2015- on loss of control Statement of Financial position	USTL KShs 000	USUL KShs 000	Total KShs 000
Assets			
Property and equipment	72,668	136,493	209,161
Intangible assets	-	179	179
Inventories	113,223	80,627	193,850
Receivables and prepayments	5,788	30,421	36,209
Cash and bank balances	10,118	1,904	12,022
Tax recoverable	-	4,134	4,134
	201,797	253,758	455,555
Current liabilities			
Payables and accrued expenses	(290,248)	(30,437)	(320,685)
Deferred revenue	(6,284)	(7,561)	(13,845)
	<u>(296,532)</u>	<u>(37,998)</u>	<u>(334,530)</u>
Net assets	<u>(94,735)</u>	<u>215,760</u>	121,025
Reclassification of translation differences to profit or loss			(34,259)
Gain on loss of control of subsidiaries			<u>86,766</u>

The Directors had a challenge in gathering accurate financial information for the purpose of consolidation due to logistical and political limitations beyond their control. The above numbers are management's best estimates based on the available information and carry forward balances from 30 June 2015 financials information.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

34. LOSS OF CONTROL OF SUBSIDIARIES (CONTINUED)

The impact of loss of control to the consolidated statement of cash flows is as follows:

	2016 KShs '000	2015 KShs '000
Non-current asset held for sale (Note 24)	408,773	-
Tax payable (Note 16(a))	(19,699)	-
	<u>389,074</u>	<u>-</u>

35. SHAREHOLDERS

The top ten shareholders and number of shares held as at 30 June 2016 is as below

Name of Shareholder	Percentage	Number of Shares
Jamii Bora Bank Limited	14.9%	54,409,539
Government of Kenya	14.7%	53,537,573
Equity Nominees Limited A/C0142	5.8%	21,219,898
Paul Wanderi Ndungu	4.6%	16,869,272
Standard Chartered Nominees Non-residents. A/C Ke8723	3.9%	14,058,020
Standard Chartered Nominees Limited Non-residents A/Cke11663	3.7%	13,371,407
Brunei Investment Limited	3.5%	12,830,103
Standard Chartered Nominees Non-residents. A/C 9289	3.2%	11,800,000
Co-Op Custody A/C 4018	2.3%	8,402,800
Standard Chartered Nominees Non-residents. A/C 9913	2.2%	8,166,000
Others	41.2%	150,296,982
Totals	100%	364,961,594

36. CAPITAL COMMITMENTS

There were no capital commitments as at 30 June 2016 (2015: Nil)

37. CONTINGENT LIABILITIES

- (a) Sidhi Investment Limited filed a suit against Uchumi Supermarkets Limited and Kasarani Mall Limited on 17 March 2005 seeking specific performance of a contract for the sale of land being LR No 5875/2 and 23393, Thika Road Nairobi disclosed in these financial statements as an investment property at Note 18b. Uchumi Supermarkets Limited through its lawyers put a defence raising technical issues and made an application to strike out the plaint. The plaintiff was granted an injunction to restrain the company from trespassing on the property in 2005. Uchumi Supermarkets Limited filed an application to set aside the court order on 18 March 2005 which was dismissed. Sidhi Investment Limited and Uchumi Supermarkets Limited both filed notices of appeals which were listed for hearing on the 3 November 2016, however, the hearing did not proceed due to the pending negotiations between the parties which is ongoing.
- (b) The Company's subsidiary, Kasarani Mall Limited, has gone to court against the four individuals and their self-help group claiming orders of injunction to restrain the defendants from trespassing on Kasarani Mall Limited's property namely LR No. 5875/2 along Thika Road (the property disclosed under Note 18b to the financial statements). The case was heard on the 5th July 2016. Parties have filed their submissions and judgement is expected in 2017.
- (c) Officials of a self-help group, Njathaini Electricity Project have filed a suit against the Company's subsidiary Kasarani Mall Limited claiming that they have occupied L.R. NO.5875/2, Thika Road and they were therefore entitled to it by adverse possession. The subsidiary has filed a replying affidavit to object to the claim and indicated that these plaintiffs had never occupied that land and were therefore not entitled to it. The matter is coming up for direction on 7 February 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)

37. CONTINGENT LIABILITIES (CONTINUED)

The directors are confident of a positive outcome on cases above and believe the investment property in Note 18(b) is not impaired as a result of the above cases. The directors are not aware of other significant matters that would require disclosure in the financial statements.

38. OPERATING LEASE COMMITMENTS

The operating lease rentals are payable as follows:

	Group		Company	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Less than one year	402,944	726,151	402,944	558,337
Between 1 and 5 years	644,225	2,835,151	644,225	2,317,918
Over five years	-	645,356	-	516,877
	<u>1,047,169</u>	<u>4,207,273</u>	<u>1,047,169</u>	<u>3,393,132</u>

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

The amounts expensed during the year have been disclosed under Note 10 as rent expense.

39. SUBSEQUENT EVENTS

Subsequent to 30 June 2016, the following activities have taken place:

- The Group received KShs 500 million from the Government of Kenya on 19 January 2017. This is the initial tranche out of the three tranche payments approved to fund the Group's operations amounting to KShs 1.2bn as disclosed under Note 2e.
- The group completed the sale of the Ngong Hyper disclosed under Note 24 in September 2016 and received the balance of payments in 3 tranches of KShs 300 million received on 6 July 2016, KShs 300 million received on 8 July 2016 and the final settlement instalment of KShs 154 million received on 13 September 2016.
- The group launched its franchising initiative in November 2016 opening its first franchise in Mwiki-Nairobi in November 2016.
- On 19 December 2016, the Group obtained a loan of KShs 174,959,528 from United Bank for Africa (UBA) being the final disbursement of the initial loan of KShs 300 million disclosed under Note 30.

PROXY FORM

I/WE _____

OF _____

Being a member of the above Company, hereby appoint:

OF _____

Whom failing _____

OF _____

or failing him, the Chairman of the Meeting, as my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 31 March 2017 at 10.00am at Ufungamano or any adjournment thereof.

As witness my/our hand this _____ day of _____ 2017

Signed _____

Signed _____

Note:

- 1) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
- 2) In the case of a member being a limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
- 3) Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.



DELI





Home Of Value

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