UCHUMI SUPERMARKETS LIMITED
AND SUBSIDIARIES

ANNUAL REPORT AND
FINANCIAL STATEMENTS

AT

30 JUNE 2016

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016

DIRECTORS

Dr. Catherine Ngahu	-	Chairperson - Appointed 27 November 2015
Dr. Julius Kipngetich	-	Chief Executive Officer - Appointed 3 August 2015
Principal Secretary, Ministry of Trade & Industry	-	Represented by Dr. Chris Kiptoo
Mr. Timothy Mwaniki Kabiru	-	Appointed 23 May 2016
Industrial & Commercial Development Corporation	-	Represented by Mr. Dismas J. Oyieko – Appointed 24 March 2016 replacing Ms. Faith Nene – Resigned on 23 March 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. Gloria Mukiri Kiogora	-	Appointed 9 September 2016
Ms. Khadija Mire	-	Retired December 2015
Mr. Samuel Njuguna Kimani	-	Resigned 23 May 2016
Mr. Polycarp Igathe	-	Resigned 23 March 2016
Mr. James Ruhiu 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 & 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

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

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

BANKERS

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

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

Equity Bank Limited
NHIF Building
P.O. Box 75104 - 00200
Nairobi

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

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

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

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

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

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

REPORT OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

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 10 and 11 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.

6. Business overview (continued)

Operations of the company - continued

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 tranch 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.

6. Business overview (continued)

Operations of the company - continued

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 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

DIRECTOR

Date: 30 January 2017

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

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 10 to 62, 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. Catherine Ngahu Director

Date: 30 January 2017

KPMG

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 00100 GPO
Nairobi, Kenya

Telephone +254 20 2806000
Email info@kpmg.co.ke
Internet www.kpmg.com/eastafrica

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 10 to 62, 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 6, 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.

KPMG

REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF UCHUMI SUPERMARKETS LIMITED (CONTINUED)

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- (continued)

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).

KPMG

REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF UCHUMI SUPERMARKETS LIMITED (CONTINUED)

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.

KPMG Kenya

Date: 30 January 2017

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	24,206	65,607
		6,427,143	12,954,581
Cost of sales	8	(5,450,199)	(10,816,813)
Gross profit		**976,944**	**2,137,768**
Other income	9	334,526	450,610
		1,311,470	**2,588,378**
Expenses			
Administration and establishment	10	(3,238,836)	(4,668,440)
Selling and distribution	11	(52,996)	(148,111)
		(3,291,832)	(4,816,551)
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	86,766	-
		(2,260,378)	**(3,177,210)**
Finance costs	14	(411,119)	(335,854)
Loss before tax	15	**(2,671,497)**	**(3,513,064)**
Income tax (expense)/credit	16(b)	(165,235)	91,704
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 18 to 62 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	24,206	65,607
		6,427,143	11,455,311
Cost of sales	8	(5,450,199)	(9,592,566)
Gross profit		**976,944**	**1,862,745**
Other income	9	334,526	404,690
		1,311,470	**2,267,435**
Expenses			
Administration and establishment	10	(3,238,836)	(3,383,767)
Selling and distribution	11	(52,996)	(118,861)
		(3,291,832)	(3,502,628)
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	(466,782)	(1,049,037)
		(3,028,935)	**(3,983,611)**
Finance costs	14	(411,119)	(173,545)
Loss before tax	15	**(3,440,054)**	**(4,157,156)**
Income tax (expense)/credit	16(b)	(160,235)	226,546
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 18 to 62 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
		3,338,177	**4,635,709**
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
		1,664,039	1,777,287
TOTAL ASSETS		**5,002,216**	**6,412,996**
EQUITY AND LIABILITIES			
Equity			
Share capital	28	1,824,808	1,824,808
Reserves- (deficit)	29	(3,922,185)	(1,085,453)
		(2,097,377)	**739,355**
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
		667,421	493,694
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
		6,432,172	**5,179,947**
TOTAL EQUITY AND LIABILITIES		**5,002,216**	**6,412,996**

The financial statements on pages 10 to 62 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 18 to 62 are an integral part of these financial statements.

UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES

COMPANY 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
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 10 to 62 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 18 to 62 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 KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Translation reserve KShs'000	Retained earnings KShs'000	Total 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:	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Translation reserve KShs'000	Retained earnings KShs'000	Total KShs'000
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 18 to 62 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

2016:	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Accumulated losses KShs'000	Total KShs'000
At 1 July 2015	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)	2,583485
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 18 to 62 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 18 to 62 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	411,119	173,545
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		10,405	4,273
Cash outflows from operations		**518,248**	**(855,654)**
Tax paid	16	(942)	(9,280)
Net cash used in operating activities		**517,306**	**(864,934)**
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		**(167,025)**	**(84,784)**
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		**(465,252)**	**516,494**
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	**(328,276)**	**(213,305)**

The notes on pages 18 to 62 are an integral part of these financial statements.

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.

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgements (continued)

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.

(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.

2. BASIS OF PREPARATION (Continued)

(e) Going Concern (continued)

(iii) **Strategic investor** - The shareholders of the Company passed a resolution at its last Annual General Meeting authorizing the directors to identity 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation - continued

(iii) Loss of control

When the Group losses 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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	
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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property and equipment (continued)

(i) Recognition, measurement and subsequent expenditure - continued

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee benefits (continued)

(iv) Defined Contribution Plan – continued

- *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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation (continued)

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-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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments (continued)

(ii) Classification - continued

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Impairment (continued)

(i) Financial assets - continued

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Impairment (continued)

(iii) Non-financial assets - continued

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

3. 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

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)*

  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.

3. 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

- *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.

  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.

3. 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

- *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.

3. 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

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

3. 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 9: Financial Instruments (2014) - continued*

  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.

- *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

3. 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 - continued*

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:

(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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates (Continued)

(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:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates (Continued)

(v) Fair value of financial instruments - continued

- 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 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

The Group's Risk Management Framework - continued

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.

(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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(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.

(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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (continued)

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**
At 30 June 2015			
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 KShs'000	2015 KShs'000	2016 KShs'000	2015 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)

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) 2. Investment property- Land	***Market approach:*** 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. 2. Infrastructure developments	The estimated fair values would increase/ (decrease); 1. If property prices near the location of the property were higher/ (lower). 2. With improvements/ (deterioration) in infrastructure development.

Group

30 June 2016	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**
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**

6. FAIR VALUE HIERARCHY (Continued)

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

Company	**2016**	**2015**
	KShs'000	**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.

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.

6. FAIR VALUE HIERARCHY (Continued)

(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.

	Group		Company	
7. SALES	**2016**	**2015**	**2016**	**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**
8. COST OF SALES				
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	2015	2016	2015
	KShs'000	KShs'000	KShs'000	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
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**

12. IMPAIREMENT 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**

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 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 KShs'000
Income tax payable/ (recoverable)				
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	**2,843**	**16,242**	**2,843**	**(3,457)**
Presented as follows:				
Tax recoverable	-	(3,457)	-	(3,457)
Tax payable	2,843	19,699	2,843	-
	2,843	**16,242**	**2,843**	**(3,457)**

(b) Income statement

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 KShs'000
Current tax:				
- Current year	8,433	28,724	8433	4632
- Prior year overprovision	(1,191)	-	(1,191)	-
	7,242	**28,724**	**7,242**	**4,632**
Deferred tax (Note 22(b)):				
- Current year movement	5,000	(120,428)	-	(231,178)
- Current year derecognised	152,993	-	152,993	-
	157,993	**(120,428)**	**152,993**	**(231,178)**
Income tax credit	**165,235**	**(91,704)**	**160,235**	**(226,546)**
Accounting loss before tax	**(2,671,497)**	**(3,513,064)**	**(3,440,053)**	**(4,157,156)**
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	**(91,704)**	**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 At 30 June 2016:	Buildings and freehold land KShs '000	Improvements to premises KShs' 000	Machinery KShs'000	Vehicles and 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
Net book value					
At 30 June 2016	**481,334**	**103,801**	**101,285**	**224,391**	**910,812**

At 30 June 2015:	Buildings and freehold land KShs '000	Improvements to premises KShs' 000	Machinery KShs'000	Vehicles and equipment KShs'000	Total KShs'000
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
Net book value					
At 30 June 2015	**1,473,923**	**102,855**	**241,476**	**337,703**	**2,155,957**

18. PROPERTIES (Continued)

(a) Property and equipment (continued)

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	2015	2016	2015
	KShs '000	KShs '000	KShs '000	KShs '000
Cost	271,084	271,084	186,084	184,084
Accumulated depreciation	(49,777)	(45,608)	(49,777)	(45,608)
Carrying amount	**221,307**	**225,476**	**136,307**	**138,476**

(b) Investment property

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

Investment properties relate to two pieces of land held by the company's subsidiary, Kasarani Mall Limited, under long-term lease arrangements with the Government of Kenya with Kasarani Mall Limited as the lessee. The land was valued at KShs.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.

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

20. PREPAID OPERATING LEASES

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

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%	200	200
			200	**200**

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.

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		**Movement through**	
At 30 June 2016	**1 July**	**profit or loss**	**30 June**
	KShs'000	**KShs'000**	**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			**Movement through**	
At 30 June 2016	**1 July**	**Derecognised**	**profit or loss**	**30 June**
	KShs'000	**KShs'000**	**KShs'000**	**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)**

22. DEFERRED TAX (Continued)

(b) Recognised deferred tax asset- (continued)

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**

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**

22. DEFERRED TAX (Continued)

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	

23. INVENTORIES

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 KShs'000
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**

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 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 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)	-
	977,528	**408,773**	**977,528**	**-**

*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 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 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	**222,932**	**307,374**	**222,932**	**268,924**

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 2015 KShs'000
Ageing of trade receivables				
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)
	87,123	**60,833**	**87,123**	**54,273**
Movement in credit losses				
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	-
	60,905	**26,400**	**60,905**	**23,109**

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	Group and Company 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	133,103	133,103
	133,103	**133,103**

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.

26. RELATED PARTY TRANSACTIONS (Continued)

(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	-	28,678

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

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

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

	2016	2015
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 KShs'000	2015 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	500,000	500,000
	3,000,000	**3,000,000**

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 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Issued and fully paid				
364,961,594 ordinary shares of KShs 5 each	**1,824,808**	**1,824,808**	**1,824,808**	**1,824,808**

29. RESERVES

	Group 2016	Group 2015	Company 2016	Company 2015
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)	-	-
	(3,922,185)	**(1,085,453)**	**(6,073,132)**	**(2,472,843)**

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
			1,371,057

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
	298,569	**266,032**
Total borrowings	**361,710**	**266,032**

The movement in term loans during the year was as follows

	2016	2015
At 1 July	266,032	815,217
Additions	875,040	-
Repayments	(779,362)	(549,185)
At 30 June	**361,710**	**266,032**

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:

	2016	2015
Term loan	18.00%	15.5%

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:

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	644,225	**488,530**	449,855	**382,944**
Total minimum lease payments	1,047,169	**798,865**	1,306,583	**948,676**
Less amounts representing finance charges	(248,304)		(357,907)	
Total obligation	**798,865**		**948,676**	

31. OBLIGATIONS UNDER FINANCE LEASE (Continued)

Company:	2016 Minimum payments KShs'000	2016 Present value of lease payments KShs'000	2015 Minimum payments KShs'000	2015 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	644,225	**488,530**	449,855	**382,944**
Total minimum lease payments	1,047,169	**798,865**	713,442	**540,134**
Less amounts representing finance charges	(248,304)		(173,308)	
Total obligation	**798,865**		**540,134**	

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 2016 KShs '000	Group 2015 KShs '000	Company 2016 KShs '000	Company 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	**798,865**	**948,676**	**798,865**	**540,134**

32. TRADE AND OTHER PAYABLES

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 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
	4,684,639	**3,859,318**	**4,684,639**	**3,102,520**

33. DEFERRED REVENUE

	Group 2016 KShs'000	Group 2015 KShs'000	Company 2016 KShs'000	Company 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)	-	-	-
	25,581	**29,861**	**25,581**	**15,176**

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*	**USTL**	**USUL**	**Total**
Statement of Financial position	**KShs 000**	**KShs 000**	**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)
	(296,532)	**(37,998)**	**(334,530)**
Net assets	**(94,735)**	**215,760**	**121,025**
Reclassification of translation differences to profit or loss			(34,259)
Gain on loss of control of subsidiaries			**86,766**

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.

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

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

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.

37. CONTINGENT LIABILITIES (Continued)

(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.

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
	1,047,169	**4,207,273**	**1,047,169**	**3,393,132**

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.