

UCHUMI SUPERMARKETS LIMITED
AND SUBSIDIARIES

INTERIM FINANCIAL STATEMENTS

31ST DECEMBER 2011

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UCHUMI SUPERMARKETS LIMITED AND SUBSIDIARIES
COMPANY INFORMATION
FOR THE SIX MONTHS ENDED 31ST DECEMBER 2011

PRINCIPAL PLACE OF BUSINESS

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

REGISTRARS

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

REGISTERED OFFICE

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

CHIEF EXECUTIVE OFFICER

Dr. Jonathan Ciano
Uchumi Supermarkets Limited
Yarrow Road
P. O. Box 73167
00200 NAIROBI.

BANKERS

Kenya Commercial Bank Limited
Kencom House
Moi Avenue
P. O. Box 48400
00100 NAIROBI.

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

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

Commercial Bank of Africa
International Life House
Mama Ngina Street
P O Box 30437
00100 NAIROBI.

AUDITORS

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

UCHUMI SUPERMARKETS LTD
CONSOLIDATED BALANCE SHEET AS AT:

	UNAUDITED 31st December 2010	UNAUDITED 31st December 2011	AUDITED 30th June 2011
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	680,443	1,474,857	1,438,734
Investment Properties	580,000	750,000	750,000
Intangible Assets	22,643	10,520	17,193
Prepaid Operating Lease Rentals	20,146	19,878	20,013
Deferred Tax Asset	648,566	381,130	381,130
	1,951,798	2,636,385	2,607,070
CURRENT ASSETS			
Inventories	930,972	895,052	838,891
Trade and other receivables	350,368	307,305	329,095
Tax recoverable	4,101	2,356	2,356
Short-term deposits	62,834	63,463	73,033
Cash and bank balances	309,745	413,501	154,275
	1,658,020	1,681,677	1,397,650
TOTAL ASSETS	3,609,818	4,318,062	4,004,720
SHAREHOLDERS' EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share Capital	1,329,700	1,327,133	1,327,133
Reserves	371,482	1,156,285	952,032
	1,701,182	2,483,418	2,279,165
NON CURRENT LIABILITIES			
<i>Term Loans</i>	284,672	158,168	183,368
CURRENT LIABILITIES			
Trade and other payables	1,470,918	1,250,462	1,110,984
Deferred Revenue	47,780	47,688	47,688
Amounts due to related parties	23,666	18,402	10,785
Tax Payable		-	2,263
Term loans	81,600	91,600	137,200
Bank overdraft		268,324	233,267
	1,623,964	1,676,476	1,542,187
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	3,609,818	4,318,062	4,004,720

UCHUMI SUPERMARKETS LTD
CONSOLIDATED INCOME STATEMENT
SIX MONTHS ENDED 31ST DECEMBER

	HALF-YEAR 2010/11		HALF-YEAR 2011/12	
	MONTH	YTD	MONTH	YTD
	31st December 2010	31st December 2010	31st December 2011	31st December 2011
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Net Sales	1,232,094	5,813,146	1,545,793	7,503,674
Cost of Sales	(1,013,962)	(4,763,907)	(1,264,018)	(6,122,560)
Gross Profit	218,132	1,049,239	281,774	1,381,114
Other Income	10,299	49,417	32,714	146,991
	228,432	1,098,656	314,488	1,528,106
Operating Expenses	(176,833)	(892,595)	(235,203)	(1,310,099)
Profit from Operating Activities	51,599	206,061	78,285	218,066
Finance Costs	(6,708)	(43,813)	(5,477)	(13,753)
Profit Before Taxation	44,891	162,248	73,837	204,253
Profit Per Share				
Basic and Diluted	0.169	0.610	0.278	0.768
Number of outstanding ordinary shares	266 million	266 million	266 million	266 million

GROUP STATEMENT OF CHANGES IN EQUITY

	Revaluation		Translation		Share		Equity		Accumulated	
	Reserve Kshs'000	Reserve Kshs'000	Reserve Kshs'000	Capital Kshs'000	Premium Kshs'000	Pending Allotment Kshs'000	Losses Kshs'000	Total Kshs'000		
At 1 July 2010	214,251	(21,996)	900,000	662,882	859,580	(1,075,784)	1,538,933			
Transfer to accumulated losses	(7,887)					7,887				
Equity Allotment			427,133	427,133	(854,266)					
Reversal of excess interest capitalised					(5,314)					
Profit for the year								(5,314)		
Other comprehensive income for the year	372,136	(17,015)						390,425		
At 30 June 2011	578,500	(39,011)	1,327,133	1,090,015	-	(677,472)	2,279,165			
Profit for the half-year period to 31 December 2011	204,253							204,253		
At 31 December 2011	782,753	(39,011)	1,327,133	1,090,015	-	(677,472)	2,843,418			

**UCHUMI SUPERMARKETS LTD
CONSOLIDATED CASH FLOW STATEMENT**

FOR PERIOD ENDED	31st Dec 2010 Kshs'000	31st Dec 2011 Kshs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	272,266	382,008
Income Tax paid		(2,263)
	<hr/>	<hr/>
Net cash used in operating activities	272,266	379,745
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(28,616)	(94,481)
Purchase of intangible assets	(6,333)	
	<hr/>	<hr/>
Net Cash generated from investing activities	(34,949)	(94,481)
FINANCING ACTIVITIES		
Repayments on long-term Loans	(79,190)	(70,800)
	<hr/>	<hr/>
Net Cash used in financing activities	(79,190)	(70,800)
NET INCREASE IN CASH AND CASH EQUIVALENTS	158,127	214,464
CASH AND CASH EQUIVALENTS AT BEGINING OF PERIOD	215,567	(5,959)
Effect of exchange rate movements	(1,115)	135
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	372,579	208,640

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

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs) and all values are rounded to the nearest thousands (KShs '000') except when otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires the Specialist Receiver Manager to exercise judgment in the process of applying the company's accounting policies. Although these estimates are based on the Specialist Receiver Manager's best knowledge of current events and actions, actual results may differ from those estimates. Accounting policies 2(b) and 2(c) below on 'critical accounting estimates and assumptions' and 'critical accounting judgements' highlight the areas that involve a higher level of judgements, or where the estimates or assumptions used are significant to the financial statements.

b) Critical accounting estimates and assumptions

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

Property, plant and equipment

The Specialist Receiver Manager makes estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Impairment of non-financial assets

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

Deferred tax assets

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

c) Critical accounting judgements

In the process of applying the company's accounting policies, the Specialist Receiver Manager make certain judgements, that are continuously assessed based on prior experience and other determinants, including expectations of future events that, under the circumstances are deemed to be reasonable as described below:

Allowances for obsolete inventories

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

Allowances for doubtful debts

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

d) New accounting standards, amendments and interpretations

The group has adopted IFRIC 13, Customer Loyalty Programmes which was issue in June 2007 and effective for accounting periods beginning 1 July 2008. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The group maintains a loyalty points programme, and records a liability at the time of sale based on the costs expected to be incurred to supply products in the future.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or 1 July 2008 but are not relevant to the group's operations:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets. The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term. Financial assets that would be eligible for classification as loans and receivables (those assets which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from 'Held-for-trading' to 'Loans and receivables', if the entity has the intention and the ability to hold them for the foreseeable future. Financial assets that are not eligible for classification as loans and receivables, may be transferred from 'Held-for-trading' to 'Available-for-sale' or to 'Held-to-maturity', only in rare circumstances. The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions - This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.
- IFRIC 12, Service Concession Agreements. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.
- IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction. IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 Employee Benefits.

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

Standards, Amendments and Interpretations that have been issued and are not yet effective.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective and which the group has not early adopted:

- IFRS 2 amendments - Share based payment - vesting conditions and cancellations (effective from 1 January 2009); the IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

- IFRS 3 revised -Business combinations and IAS 27 revised -Consolidated and Separate Financial Statements. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early adopted. However, the company does not intend to take such possibility.
- IFRS 8 - Operating segments (effective from 1 January 2009); the IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date.
- IAS 1 revised - Presentation of financial statements; the revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement, or in two linked statements.
- IAS 23 revised - Borrowing costs (effective from 1 January 2009); the IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- IAS 32 amendments - Presentation and IAS 1 presentation of financial statements; puttable Financial Instruments and Obligations Arising on Liquidation -These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features.
- IAS 39 amendment – Financial instruments: Recognition and measurement – eligible hedged items; These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item.

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

Standards, Amendments and Interpretations that have been issued and are not yet effective (Continued)

- IFRIC 15 – Agreements for the construction of real estate IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18; and
- IFRIC 16 – Hedges of a net investment in a foreign operation (IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of

foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

The Specialist Receiver Manager anticipate that the adoption of these standards will have no material effect on the financial statements of the group in the period of initial application, but additional disclosures will be required.

Improvements to IFRSs

In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The group has not yet adopted the following amendments which are effective mostly for the financial year beginning on or after 1 January 2009 with some exception and anticipates that these changes will have no material effect on the financial statements in the period of initial application.

- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 18 Revenue: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

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

Improvements to IFRSs (Continued)

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 29 Financial Reporting in Hyperinflationary Economies: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 34 Interim Financial Reporting: Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use

of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

e) Revenue recognition

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

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

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

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

f) Customer loyalty program

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

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

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

h) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on regular valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Buildings on freehold land	Over a period of 45 years
Buildings on leasehold land	Shorter of estimated useful life or the lease term
Improvements to premises	10%

Plant and machinery	20%
Equipment and motor vehicles	15%, 20% and 25% (as applicable)

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

The carrying values of the above mentioned tangible assets are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

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

i) Foreign currencies

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

i) Foreign currencies

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

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

j) Cash and cash equivalents

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

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

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

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

Bank overdrafts are disclosed separately under current liabilities.

k) Trade and other payables

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

l) Trade and other receivables

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

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

m) Interest-bearing loans and borrowings

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

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

n) Consolidation of financial statements

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

o) Tax

Current corporate tax

Current corporate tax is provided on the basis of the results for the year as shown in the financial income statement, adjusted in accordance with the tax legislations and at the tax rate, enacted or

s) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

t) Borrowing costs

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

u) Provisions

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

v) Leases

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

w) Intangible assets and amortization

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over a period of four years.

x) Cost of sales

Accounting policies

For six months to December 31st 2011

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

y) Investments in subsidiaries

Investments in subsidiaries are carried in the company's balance sheet at cost less provisions for impairment losses. Where, in the opinion of the management, there has been impairment in the value of an investment, the loss is recognized as an expense in the period in which the impairment is identified.

z) Offsetting

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

aa) Segmental reporting

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

The group operations are carried out in Kenya and Uganda.

ab) Investment properties

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

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

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