NAKUMATT HOLDINGS LIMITED (UNDER ADMINISTRATION)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2018

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DIRECTORS	A M Shah *British A A Shah	
SECRETARY	Livingstone Associates Certified Public Secretaries (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 30029 – 00100 Nairobi	
REGISTERED OFFICE	L.R No. 209/4393/24 Deloitte Place, Waiyaki Way, Muthangari P 0 Box 30029 – 00100 Nairobi	
INDEPENDENT AUDITOR	Parker Randall Eastern Africa Certified Public Accountants Galleria Business Park, Block 2 (A P O Box 25426 – 00100 Nairobi	
BANKERS	Standard Chartered Bank Kenya Limited P 0 Box 30003 - 00100 Nairobi	KCB Bank Limited Moi Avenue P 0 Box 48400 - 00100 Nairobi
	CFC Stanbic Bank Limited CFC Stanbic Building P 0 Box 30550 - 00100 Nairobi	NIC Bank Limited NIC House, Masaba Road P 0 Box 44599 - 00100 Nairobi
	Diamond Trust Bank Limited Nation Centre Branch P 0 Box 61711 - 00200 Nairobi	Barclays Bank of Kenya Limited Plaza Branch, Loita Street P 0 Box 46661 - 00100 Nairobi
	Bank of Africa Kenya Limited Reinsurance Plaza, Taifa Road P 0 Box 69562 - 00400 Nairobi	Oriental Commercial Bank Limited Finance House, Koinange Street P 0 Box 44080 - 00100 Nairobi
	Habib Bank Kenya Limited Koinange Street P 0 Box 43157 - 00400 Nairobi	Guaranty Trust Bank Limited Woodvale Close, Westlands P 0 Box 20613 - 00200 Nairobi
ADVOCATES	Kariuki Muigua & Company Advocates P 0 Box 3259 - 00200 Nairobi	Taibjee and Bhalla Advocates P 0 Box 10161 - 00100 Nairobi
	Nyaberi & Co. Advocates, P 0 Box 79246 - 00200 Nairobi	

The directors submit their report and the audited financial statements for the year ended 28 February 2018.

1. Principal Activity

The principal activity of the company is the operation of retail supermarkets

2. Results

	2018 Kshs. 000	2017 Kshs. 000
Loss before taxation	(6,561,519)	(21,003,193)
Income Tax Expense	(9,814)	532,013
Loss for the year	(6,571,333)	(20,471,180)

3. Dividends

The directors do not recommend the declaration of dividends for the year (2017: Nil)

4. Directors

The directors of the company during the year and to the date of this report are as set out in page 1.

5. Statement as to disclosure to the Company's auditor

With respect to each director at the time this report was approved:

a) there is, so far as the director is aware, no relevant audit information of which the Company's auditor is unaware; and

b) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information

6. Independent Auditor

Nakumatt was placed under administration on 22nd January 2018. Messer's Parker Randall Eastern Africa were appointed by the administrator in December 2018 to carry out the audit for the year ended 28th February 2018.

By order of the Board

Secretary

..... 2019

The Kenyan Companies Act,2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that:

a) show and explain the transactions of the Company;
b) disclose, with reasonable accuracy, the financial position of the Company; and
c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

The financial statements and notes set out on page 10 to 45, were approved by the board of directors

on..... 2019 and were signed on its behalf by:

.....	.....
Director	Director

Parker Randall Eastern Africa
Member firm of Parker Randall International

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MANAGEMENT OF NAKUMATT HOLDINGS LIMITED (UNDER ADMINISTRATION)
FOR THE YEAR ENDED 28 FEBRUARY 2018

Disclaimer of opinion

We were engaged to audit the financial statements for Nakumatt Holdings Limited (under administration), which comprise the statement of financial position as at 28 February 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our qualified audit opinion on these financial statements.

Basis for disclaimer of Opinion

Material Uncertainty on the going concern

We draw your attention to note 3 of the financial statements. The Company incurred a net loss of Kshs 6.5billion (2017 - Kshs 20 billion) during the year ended 28 February 2018 as of that date, the company's current liabilities exceed its current assets by Kshs 17.9 billion and it had a shareholders' deficit of Kshs 27 billion. These matters indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

Comparative balances

The auditor issued a disclaimer of opinion on the financial statements for the year ended 28 February 2017. As a result, we could not get sufficient evidence on opening balances and as such we have not been able to ascertain the correctness of the opening balances and comparative figures in the financial statements for the year ended 28 February 2018, and profit and loss items such as cost of sales affected by opening balances

Inventory

We were not appointed as auditors of the company until after 28 February 2018 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 28 February 2017 and 2018 which are stated in the statement of financial position at Kshs 5 Billion and Kshs 1 billion, respectively. We thus cannot confirm whether the inventory reported on the balance sheet existed at year end. Management was also unable to provide proper costing schedules to enable us ascertain inventory values contained in the financial statements.

Inventory write offs
Further, in the current year Inventory worth Kshs 302 million (2017 - Kshs 12 billion) (note 6) was written off through the profit and loss account and Kshs 12million (2017 - Kshs 1.8 billion) (note 5) written off through the cost of sales. We could not confirm the authenticity of the write-offs and we could not rely on the internal controls on inventory management.

Adjustment in the retained earnings account
The company has made an unexplained adjustment to the opening retained earnings of Kshs 9million (2017 Kshs 4.3 billion). According to management this relates to correction of errors occurring in periods proceeding the year then ended. The management has not collected sufficient data to enable it to determine the effect of correction of the error and it was impractical to reconstruct such data.

Trade Payables
There were unexplained variances of Kshs 9.7 million between the general ledger and detailed ageing analysis of trade payables, and the balances on the detailed analysis were not supported by supplier statements or reconciliations. This variance was written back as a prior period adjustment.

Unsupported deferred incomes
Included in the financial statements is Kshs 383 million (2017– Kshs 383 million) relating to deferred income. This balance was not supported by any documentation. we could therefore not confirm the existence and completeness of this liability.

Recoverability of related party balances
The company has net trade receivables of Kshs 3.9 billion - Note 19, after providing for impairment of Kshs 93 million, as at 28 February 2018. Included in this figure of 3.9 billion is Kshs 1.8 billion in the loyalty points control account. The loyalty points were operated by Cyber Cash Limited a related party to Nakumatt Holdings Limited.

Additionally, the company has net amounts due from related parties of Kshs 1.3 billion (Note 20) after providing for receivables from the subsidiaries of Kshs 1.5 billion. Significant in this net balance is Kshs 948 million due from the directors. These receivables are not supportable based on the available evidence.

Potential impairment of the property plant and equipment
Included in this financial statement are property and equipment with a book value of Kshs 2.3 billion (Note 14). In the period under review, most of the outlets had been closed off due to various litigious matters. The foregoing casts doubt as to the completeness, cut off, rights, valuation and accuracy of the property plant and equipment, further the potential damages and losses to property has not been tested in these financial statements hence the property plant and equipment balance might be misstated.

Potential impairment of deferred tax

Included in these financial statements (Note 27) is a deferred tax asset of Kshs 690 million, (2017 - Kshs 699 million). A deferred tax asset is recognized for an unused tax loss carryforward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carryforward can be utilized. Nothing has come to our attention to show that the company will make sufficient profits to utilize the deferred tax.

Non-Consolidation of subsidiaries

The Company fully owns the subsidiaries in Kenya, Uganda, Tanzania and Rwanda but did not prepare consolidated financial statements as required by IFRS 10 which requires a parent entity which is an entity that controls one or more other entities to present consolidated financial statements. Had these subsidiaries been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors and financial and statistical information which we obtained prior to the date of this auditor's report, and which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this report of the independent auditor, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have reported all such information under our basis for disclaimer opinion above.

When we read the other reports expected to be made to us after date of report of the independent auditor, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, 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.

In preparing the financial statements, the directors are responsible for assessing the firm's ability to continue as a going concern, disclosing as applicable, matters related to the going concern and using the going concern basis of accounting unless the directors intend to liquidate the firm or to cease operations or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's responsibilities for the audit of the financial statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the firm's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures or in the financial statements or, if such disclosures are inadequate, to modify our opinion

- Our conclusions are based on the audit evidence up to the date of the auditor's report. However, future events or conditions may cause the firm to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal requirements

In our opinion the information given in the report of the directors on pages 2 to 3 is consistent with the financial statements.

Certified Public Accountants
Nairobi

……2019

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Victor Majani, Practicing Certificate No. 1546.

	NOTES	2018 Kshs '000'	2017 Kshs '000'
Revenue	4	15,354,698	51,955,713
Cost of sale	5	(11,824,233)	(44,100,875)
Gross Profit		**3,530,465**	**7,854,838**
Operating expenses	6	(7,189,177)	(23,709,126)
Administrative expenses	7	(1,206,762)	(2,526,510)
Other operating Costs	8	(560,602)	(1,460,888)
Operating Loss		**(5,426,076)**	**(19,841,686)**
Other income			
Rental Income	9	275,017	689,724
Other Operating income	10	708,026	751,704
Net loss before interest and tax		**(4,443,033)**	**(18,400,258)**
Interest Income	11	40,101	79,083
Finance Costs	12	(2,158,587)	(2,682,018)
Loss before tax		**(6,561,519)**	**(21,003,193)**
Income tax charge/(credit)	13/27	(9,814)	532,013
Net Loss for the year		**(6,571,333)**	**(20,471,180)**

The notes set out on pages 15 to 45 form an integral part of the financial statements.

ASSETS	NOTES	2018 Kshs '000'	2017 Kshs '000'
Non- Current Assets			
Property and Equipment	14	2,383,580	3,126,681
Intangible Assets	15	75,301	170,011
Prepaid operating Leases	16	69,521	45,107
Investment in subsidiaries	17	391,331	391,331
Deferred taxation assets	27	690,014	699,009
Other receivables	19	123,344	119,733
Total Non- Current Assets		3,733,091	4,551,872
Current Assets			
Inventories	18	1,291,315	5,027,721
Trade and other receivables	19	3,869,003	3,598,792
Related party receivables	20 (a)	1,304,033	1,509,995
Tax recoverable	13	200,620	186,483
Fixed deposits	21	-	626,476
Bank and cash	22	47,585	484,545
Total Current Assets		6,712,556	11,434,012
TOTAL ASSETS		**10,445,647**	**15,985,884**
EQUITY AND LIABILITY			
Capital and reserves			
Share capital	23	943,347	943,347
Share premium		293,488	293,488
Revenue reserve		(28,894,258)	(22,332,646)
Shareholder's Equity		(27,657,423)	(21,095,811)
Non- Current Liability			
Borrowings	24	13,203,652	4,577,380
Obligations under hire purchase agreements	25	56,459	85,877
Other Payables	26	207,267	365,863
Total Non- Current Liability		13,467,378	5,029,120

	NOTES	2018 Kshs '000'	2017 Kshs '000'
Current Liabilities			
Trade and other payables	26	23,848,705	21,674,251
Related party payables	20(b)	372,759	358,547
Deferred income		383,564	383,564
Borrowings	24	3,175	9,604,044
Obligation under hire purchase obligation	25	27,489	32,169
Total Current Liabilities		24,635,692	32,052,575
TOTAL EQUITY AND LIABILITIES		**10,445,647**	**15,985,884**

The financial statements on pages 10 to 14 were authorized for issue by the board of directors on ..... 2019 and were signed on its behalf by:

....

Director **Director**

The notes set out on pages 15 to 45 form an integral part of the financial statements.

a) For the year ended 28 February 2018

	Share Capital Kshs '000'	Share Premium Kshs '000'	Revenue Reserve Kshs '000'	Total Kshs '000'
As at 1 March 2017	943,347	293,488	(22,332,646)	(21,095,811)
Prior year Adjustments*	-	-	9,721	9,721
Loss for the year	-	-	(6,571,333)	(6,571,333)
As at 28 February 2018	**943,347**	**293,488**	**(28,894,258)**	**(27,657,423)**

*Prior period adjustment of Kshs 9 million (Kshs 4.34 Billion – 2017) relates to reconciling balances of errors in the trade and other payables account. The company is in the process of identifying the nature and extent of these errors.

b) For the year ended 28 February 2017

	Share Capital Kshs '000'	Share Premium Kshs '000'	Revenue Reserve Kshs '000'	Total Kshs '000'
As at 1 March 2016	943,347	293,488	(1,861,466)	(624,631)
Loss for the year	-	-	(20,471,180)	(20,471,180)
As at 28 February 2017	**943,347**	**293,488**	**(22,332,646)**	**(21,095,811)**

NAKUMATT HOLDINGS LIMITED (UNDER ADMINISTRSTION)
STATEMENT OF CASHFLOWS
FOR YEAR ENDED 28 FEBRUARY 2018

		2018	2017
CASH FLOW FROM OPERATING ACTIVITIES	**NOTE**	**Kshs '000'**	**Kshs '000'**
Loss before taxation		(6,561,519)	(21,003,193)
Adjustment for:			
- Depreciation	14	281,985	413,326
- Amortization of intangible assets	15	93,601	134,192
- Amortization of prepaid operating lease	16	15,241	11,276
- Finance cost (Interest on loans)	12	2,148,860	2,672,447
- Interest income	11	(40,101)	(79,083)
- Gain on disposal of assets		(446,147)	-
- Provision for write off		-	672,331
Changes in working capital			
Decrease in inventories	18	3,736,406	15,293,699
(Decrease)/Increase in trade and other receivables	19	(273,822)	727,323
Decrease in trade and other payables	26	2,015,858	9,627,994
Changes in related party transactions	20	220,177	1,375,574
Changes in deferred income		-	(82,711)
		1,190,539	9,763,175
Tax paid	13	(14,956)	(133,780)
Interest paid	12	(2,148,860)	(2,672,447)
Interest received	11	40,101	79,083
Cash flow generated from operating activities		**(933,176)**	**7,036,031**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14	(35,621)	(601,269)
Proceeds from disposal of property and equipment	14	942,026	-
Purchase of intangible assets	15	-	(15,824)
Proceeds from disposal of Intangible Assets	15	1,967	-
Additions in prepaid operating lease	16	(39,655)	-
Fixed deposits redemptions		626,476	-
Investment in fixed deposits		-	(38,808)
Cash flow generated from Investing activities		**1,495,193**	**(655,901)**
CASH FLOW FROM FINANCING ACTIVITIES			
Loans received	24	5,723,320	9,008,513
Loan payments	24	(5,073,414)	(9,297,250)
Hire purchase payments	25	(34,098)	(88,478)
Cash flow generated from financing activities		**615,808**	**(377,215)**
Net increase in cash and cash equivalents		1,177,825	6,002,915
Cash and cash equivalents at the beginning of the year		(3,043,095)	(4,705,205)
Prior year Adjustments		9,721	(4,340,804)
Cash and cash equivalents at the end of the year	**22**	**(1,855,549)**	**(3,043,095)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

For the Kenyan Companies Act 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.

a) Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 28 February 2018

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Annual Improvements to 2010-2012
The annual improvements to IFRSs 2010-2012 cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 2 amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

The amendments to IFRS 3 require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

The amendments to IFRS 8 requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

The amendments to IFRS 13 clarify that issuing IFRS 13 and amending the amendments to IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

The amendments to IAS 16 and IAS 38 clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

The application of these amendments has had no material impact on the disclosures or on the amounts recognized in the company's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 28 February 2018 (Continued)

Annual Improvements to 2011-2013

The annual improvements to IFRSs 2011-2013 cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 8 requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments. The Company has aggregated several operating segments into a single operating segment and made the required disclosures in Note 5 in accordance with the amendments.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a company of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

a) the property meets the definition of investment property in terms of IAS 40;
b) the transaction meets the definition of a business combination under IFRS 3.

The application of these amendments has had no material impact on the disclosures or on the amounts recognized in the company's financial statements.

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 28 February 2018

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 28 February 2018 (Continued)

IFRS 9 Financial Instruments (Continued)

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors believe that the application of the amendments to IFRS 9 will have no significant impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 28 February 2018 (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.
Furthermore, extensive disclosures are required by IFRS 15.

The company does not enter into any significant contracts with customers. The directors believe that the application of the amendments to IFRS 15 will have no significant impact on the financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments to IAS 12 Income Taxes clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The directors believe that the application of the amendments to IAS 12 will have no significant impact on the financial statements.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances listed below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

a) When the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the company uses the straight-line method for depreciation and amortization for its property and equipment, and intangible assets respectively. The application of the amendments to the standard will have no significant impact on the company's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
d) Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors of the company believe that the application of the amendments to the standard will have no significant impact on the company's financial statements.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 28 February 2018 (Continued)

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

- at cost;
- in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS9); or
- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The same accounting must be applied to each category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The company has not had any changes in holding, and currently records its investment in subsidiaries at cost. The directors believe that the amendments to this standard will have no significant impact on the company's financial statements.

Annual Improvements to 2012-2014 Cycle

The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarify that the high-quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross- reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognized in the company's financial statements.

(iii)Early adoption of standards
The company did not early-adopt any new or amended standards in the period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements have been prepared under the historical cost basis of accounting.

Revenue recognition

Revenue represents sales to customers during the year, net of refunds, discounts and value added tax (VAT). Sales are recognized upon delivery of products to customers and performance of services.

Rental income is recognized on a straight-line basis over the period of the lease.

Interest income is recognized when it accrues, by reference to the principal outstanding and the interest rate applicable.

Investment in subsidiaries

The investment in subsidiaries is stated in the company's statement of financial position at cost less any impairment losses.

Customer loyalty programme

Cyber Cash Limited currently hosts the customer loyalty programme available to customers of Nakumatt Holdings Limited. Under the loyalty programme, smart card holders earn points based on the purchases made at various outlets. Nakumatt Holdings Limited is required to pay Cyber Cash Limited for the points that are earned on the program.

Sales of goods that result in award credits for customers, under this loyalty programme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted.

The consideration allocated to the award credits is measured by reference to their fair value -the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the company's obligations have been fulfilled.

Foreign currency transactions and balance

All transactions in foreign currencies during the year are converted into Kenya Shilling at rates ruling at the transaction dates. Assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shilling at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Intangible assets

Intangible assets comprise of the cost of acquired computer software programme as well as deferred expenditure. Expenditure on acquired computer software programs is capitalized and amortized using the straight-line method over their estimated useful lives at a rate of 30% per annum. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

Property and equipment

All categories of property and equipment are initially recorded at cost and subsequently stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

Depreciation

Depreciation of equipment is provided on the reducing balance basis to write off the cost of equipment to their residual values over their estimated useful lives. The annual rates used are:

Leasehold improvements	Over the unexpired lease period up to a maximum of 8 years
Motor vehicles	25%
Furniture, fittings and equipment	5%
Computer equipment	30%

Gains and losses on disposal of equipment are determined by reference to their carrying amounts and are dealt with in profit or loss.

Leasehold land

Payments to acquire leasehold interest in land are treated as a finance lease and amortized over the period of the lease.

Impairment

At the end of each reporting period, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Financial instruments

A financial asset or liability is recognized when the company becomes party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realizable value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Fixed deposits

Fixed deposits are classified as held to maturity and are measured at amortized cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Commercial Paper

Commercial papers are short term debt instruments that are issued to private individuals by Dry Associates on behalf of Nakumatt Holdings Limited. They are classified as held to maturity and stated at amortized cost.

Trade payables

Trade payables are stated at their nominal value.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalized at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease so as to achieve a constant rate of interest on the outstanding liability over the remaining term of the lease.

Payments to acquire leasehold interests in land are accounted for as operating lease prepayments and are amortized over the period of the lease.

Prepaid operating leases represent payments made towards acquisition of lease rentals of business premises. The expenditure is amortized over the term of the related lease.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is generally determined using the weighted average method. Net realizable value represents the estimated selling price in the ordinary course of business, less selling expenses. Goods in transit are stated at cost. Provision is made for obsolete, slow moving and defective inventories.

Retirement benefit costs

The company operates a defined contribution pension scheme for eligible employees. The scheme is administered by Kenindia Assurance Company Limited and is funded from contributions from both the company and employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

The company also contributes to the statutory defined contribution benefit schemes, National Social Security Fund (NSSF) in Kenya. Contributions are determined by local statutes in the country.

Contributions by the company in respect of retirement benefit costs are charged to profit or loss as they fall due.

Provision for liabilities and charges

Employees' entitlements to annual leave are recognized when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investment with original maturities of three months or less, less advances from the banks repayable within three months from the dates of advance.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgements 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 circumstances. The critical areas of accounting estimates and judgements in relation to the preparation of these financial statements are as set out below:

Impairment of assets

At the end of each reporting period, the company reviews the carrying amount of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment of assets (Continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property and equipment

Critical estimates are made by directors in determining the useful lives and residual values to equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

3 GOING CONCERN

The Company incurred a loss of Kshs 6,571,333,000 (2017 - Kshs 20,471,180,000) during the year. As of that date, the company's current liabilities exceed its current assets by Kshs 17,923,136,000 (2017 – Current liabilities exceeded current assets by Kshs 20,618,563,000).

The Company has a total asset base of Kshs 10,445,647,000 (2017 - Kshs 15,985,884,000) against total liabilities of Kshs 38,103,070,000 (2017 - Kshs 37,081,695,000).

Therefore, there is inadequate cover in the company's asset base to be able to meet its obligations. A significant portion of the liabilities relates to borrowings of Kshs 13,203,652,000 which are non-current in nature.

The Directors are aware of the material uncertainties surrounding the ability of the Company to continue as going concerns as a result of the above factors and are in consultation with the company's appointed administrator implementing certain restructuring initiatives to improve the Company's liquidity and solvency position. The measures include:

- Equity injection through issue of commercial papers to reduce the financial leverage of the company, reduce the debt level, create a capital structure that will strengthen the company balance sheet and support the Group to operate its assets to capacity and trade its own balance sheet going forward.
- Accelerated cost cutting strategy
- Boosting liquidity by negotiating with creditors to convert short term borrowings into a long-term debt with a repayment schedule that allows cash and working capital availability for the company to run its operations at normalized levels.

The Directors have taken concrete actions under the above planned initiatives to restructure the balance sheet and loan structure. In this regard, the company has engaged with all its financial stakeholders to seek their support as the company restructuring efforts. The company has also appointed advisors to facilitate the onboarding of investors and discussions are in progress with several potential equity investors, both strategic and financial. The company is also in advanced discussions with Development Finance Institutions to restructure its short-term loan into a long-term loan with loan repayment tenure of about 7-10 years.

The Directors have reviewed the current trading and cash flow projections and after considering the above initiatives have a reasonable expectation that the assumption of the company continuing as a going concern is appropriate. The Directors also believe that once the balance sheet restructuring is complete, it will improve the company's profitability, cash flow and Liquidity position, and given the strong asset base position throughout the region continue as a going concern in future also.

	2018 Kshs '000'	2017 Kshs '000'
4. Revenue		
Net Cash Sales	12,618,018	44,099,747
Net Consignment Sale	1,985,434	7,392,139
Net Credit Sales	751,246	463,827
	15,354,698	51,955,713
5. Cost of sale		
Opening Inventories	5,027,721	20,321,420
Purchases and packing materials	8,075,362	26,992,474
Inventory variance	12,465	1,814,702
Closing Inventories	(1,291,315)	(5,027,721)
	11,824,233	44,100,875
6. Operating expenses		
Staff costs	3,274,699	4,806,647
Rent and Rates	2,110,313	3,043,939
Light and water	398,938	643,746
Insurance	320,054	446,653
Depreciation	281,985	413,326
Global Card Program Expense – DTB	127,237	-
Repairs and maintenance	92,293	355,708
Security expenses	95,344	180,113
Amortization of intangible assets	93,601	134,192
Motor vehicle & generator running expenses	77,487	123,123
Amortization of prepaid operating lease	15,241	11,276
Inventory Write Off	301,985	12,878,072
Provision for Investment Write off	-	672,331
	7,189,177	23,709,126

		2018	2017
7.	**Administrative expenses**	**Kshs '000'**	**Kshs '000'**
	Marketing and Promotions	339,371	1,109,437
	Legal and professional fees	551,285	685,773
	Director's Emoluments	135,329	144,100
	Fines and Penalties	50,037	11,875
	Unclaimable VAT on expense	36,016	207,295
	Travelling	32,534	93,323
	Cleaning and Fumigation expense	27,721	49,886
	Printing and Stationery	9,601	49,124
	Licenses	8,701	23,333
	Postage and telephone	6,335	27,045
	Subscriptions and donations	2,345	-
	Insurance payable	2,162	-
	Audit Fees	2,000	2,000
	General expenses	3,244	123,264
	Secretarial Fees	81	55
		1,206,762	2,526,510
8.	**Other operating costs**		
	Bank charges	199,250	307,870
	Bad Debts Written off	361,352	1,153,018
		560,602	1,460,888
9.	**Rental Income**		
	Rent Income	247,768	397,864
	Rent Income Ukay	15,877	44,576
	Service charge and promotion-Westgate	7,386	36,299
	Ukay Service Charge	3,986	10,462
	Rent Income Westgate	-	200,523
		275,017	689,724

10. Other Operating Income	**2018**	**2017**
	Kshs '000'	**Kshs '000'**
Sundry Income	220,116	417,544
Assets disposal	446,147	-
Discount received	41,763	-
Insurance receivable	-	303,916
Subscriptions and donations	-	22,134
Realized Gain	-	8,110
	708,026	751,704

11. Interest income		
Interest Income	40,101	79,083

12. Finance cost		
Foreign Exchange	9,727	9,571
Interest expenses:		
Short-term loans - Unsecured	1,028,827	1,104,127
Bank overdrafts	619,345	718,111
Bank loans - Secured	487,778	821,140
Hire purchase obligations	12,910	29,069
	2,158,587	2,682,018

13. Income Tax Expense		
Current income tax	819	10,514
Deferred income tax (Note 27)	8,995	(542,527)
	9,814	(532,013)
Reconciliation; Taxable income		
Taxable business income	-	-
Rental	2,729	35,048
Total taxable income	2,729	35,048
Tax - 30%	819	10,514
Corporate tax Payable/ (Recoverable)		
Balance at the beginning	(186,483)	(63,217)
Current tax charge for the year	819	10,514
Payments made during the year:	(14,956)	(133,780)
	(200,620)	(186,483)

14. Property and equipment

a) For the year ended 28 February 2018

	Leasehold land and buildings	Motor Vehicles	Furniture Fittings and Equipment	Computer Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Cost					
As at 1 March 2017	416,510	446,612	4,396,984	944,925	6,205,031
Additions	-	4,250	15,602	15,769	35,621
Disposals	(52,886)	(19,143)	(723,722)	(84,292)	(880,043)
As at 28 February 2018	363,624	431,719	3,688,864	876,402	5,360,609
Accumulated Depreciation					
As at 1 March 2017	239,830	333,916	1,774,264	730,340	3,078,350
Disposals	(26,904)	(17,180)	(264,640)	(74,581)	(383,305)
Charge for the year	18,956	28,503	172,203	62,322	281,984
As at 28 February 2018	231,882	345,239	1,681,827	718,081	2,977,029
Net carrying amount					
As at 28 February 2018	**131,742**	**86,480**	**2,007,037**	**158,321**	**2,383,580**

Included in motor vehicles are assets with a cost of Kshs 182,402,897 (2017 – Kshs. 182,402,897) and a net book value of Kshs65,499,619 (2017 - Kshs 87,332,826) that is subject to finance lease as disclosed in note 24.

b) For the year ended 28 February 2017

	Leasehold land and buildings	Motor Vehicles	Furniture Fittings and Equipment	Computer Equipment	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost					
As at 1 March 2016	393,065	444,584	3,908,485	857,628	5,603,762
Additions	23,445	2,028	488,499	87,297	601,269
As at 28 February 2017	416,510	446,612	4,396,984	944,925	6,205,031
Accumulated Depreciation					
As at 1 March 2016	212,040	292,398	1,532,509	628,077	2,665,024
Charge for the year	27,790	41,518	241,755	102,263	413,326
As at 28 February 2017	239,830	333,916	1,774,264	730,340	3,078,350
Net carrying amount					
As at 28 February 2017	176,680	112,696	2,622,720	214,585	3,126,681

15 Intangible assets	2018 Kshs'000	2017 Kshs'000
Cost		
At the beginning of the year	618,160	602,336
Additions	-	15,824
Disposal	(1,900)	-
At the end of the year	616,260	618,160
Amortization		
At the beginning of the year	448,149	313,957
Charge for the year	93,601	134,192
Disposal	(791)	-
At the end of the year	540,959	448,149
Net Book Value		
At end of year	**75,301**	**170,011**

Intangible assets represent computer software used in the company's operations.

16 Prepaid operating leases	2018 Kshs'000	2017 Kshs'000
Cost		
At the beginning of the year	129,300	129,300
Additions	39,655	-
At the end of the year	168,955	129,300
Amortization		
At the beginning of the year	84,193	72,917
Charge for the year	15,241	11,276
At the end of the year	99,434	84,193
Net Book Value		
At end of year	69,521	45,107

Prepaid operating leases represent payments made towards acquisition of lease rentals of business premises. The expenditure is amortized over the term of the respective leases.

17 Investment in subsidiaries	2018 Kshs'000	2017 Kshs'000
Nakumatt Rwanda Ltd	80,755	80,755
Nakumatt Uganda Ltd	551,414	551,414
Nakumatt Tanzania Ltd	40,161	40,161
Collogne Investments Ltd	391,332	391,332
	1,063,662	1,063,662
Provision for write off	(672,331)	(672,331)
	391,331	391,331

17 Investment in subsidiaries (Continued)

Details of the group's subsidiaries are as follows;

Name	Holding	Share Capital	Country of Incorporation	Principal Activity
Nakumatt Rwanda Ltd	100%	Rwf. 600,500,000	Rwanda	Retail Supermarket
Nakumatt Uganda Ltd	100%	Ush. 18,300,000,000	Uganda	Retail Supermarket
Nakumatt Tanzania Ltd	100%	TShs. 20,000,000	Tanzania	Retail Supermarket
Collogne Investments Ltd	100%	Kshs. 163,900,000	Kenya	Investment Company

The company has provided for write off a total of Kshs 672 million relating to the historical cost of their investments in Uganda, Rwanda and Tanzania. Currently the subsidiary in Tanzania is not trading and is seeking administrative orders while the subsidiaries in Uganda and Rwanda are undergoing wind up procedures in their respective jurisdiction.

18 Inventories	2018 Kshs'000	2017 Kshs'000
Goods for sale	1,627,297	17,980,589
Inventory Write Off	(301,985)	(12,878,072)
Provision for Slow Moving Stock	(33,997)	(74,796)
	1,291,315	5,027,721

Write down of inventories recognized as an expense during the year amounted to Kshs. 301million (2017: Kshs. 12,878,072,182). The carrying amount of inventory carried at fair value less costs to sell is Kshs. 1,325,312,046 (2017: Kshs. 5,102,517,274).

19 Trade and other receivables	2018 Kshs'000	2017 Kshs'000
Trade receivables	1,049,189	512,748
Other receivables	558,703	577,986
Loyalty Point Control account	1,843,674	1,831,099
Supplier Advance - Prepayments	269,749	414,498
Rental Deposits	240,763	355,536
Charter House Finance Bank	123,344	119,733
	4,085,422	3,811,600
Provision for Doubtful Debts	(93,075)	(93,075)
	3,992,347	3,718,525
Classification:		
Non- current	123,344	119,733
Current	3,869,003	3,598,792
	3,992,347	3,718,525

19 Trade and other receivables (Continued)

The non-current bank balance represents a balance held in a current account with Charterhouse Bank Limited. The bank is under statutory management and it is therefore not clear as to when the company will be able to recover these monies.

20 Related party transactions

		2018	2017
a)	**Related party receivables**	**Kshs'000**	**Kshs'000**
	Due from Nakumatt Uganda Ltd	760,125	437,065
	Due from Nakumatt Rwanda Ltd	454,682	435,771
	Due from Nakumatt Tanzania Ltd	295,665	276,285
		1,510,472	**1,149,121**
	Amounts due from the director	948,005	1,012,543
	Nakumatt Investments	198,346	198,043
	Nakuru Mattresses Ltd -Nairobi	-	107,016
	Collogne Investments Ltd	58,845	79,243
	Parkview Shopping Arcade Ltd	50,428	64,741
	Snow Daly Capital Ltd	33,024	33,024
	Nakumatt Group Ltd	15,100	15,100
	Nakuru Mattresses Ltd -Thika	193	193
	Smart Alliance Ltd	15	15
	Nakuru Mattresses Ltd -Nakuru	77	77
		2,814,505	2,659,115
	Provision for write off	(1,510,472)	(1,149,121)
		1,304,033	1,509,995
b)	**Related party payables**		
	Due to Cyber cash limited	333,844	354,190
	Ukay Estates Ltd	4,357	4,357
	Nakuru Mattresses Ltd Nairobi	34,558	-
		372,759	358,547
	Net related party transactions	931,274	1,151,448

The provision for write off of Kshs 1.5 billion relates to receivables from Nakumatt Rwanda, Uganda and Tanzania since these companies are no longer trading actively.
The amounts due from/ to Nakumatt Investment ltd, Nakuru Mattress Ltd Nairobi, Parkview shopping Arcade Ltd, Snow Daly Capital ltd, Nakumatt group ltd, Nakuru Mattress Ltd Thika, Smart Alliance Ltd, Nakuru Mattress Ltd Nakuru and Ukay Estates Ltd represent short-term advances through current accounts and payments made on behalf of these companies.
Amounts due to Cyber cash limited are in respect of a loyalty shopping programme run in the shopping outlets owned by Nakumatt Holdings Limited.
The amounts due from a director are interest free. They relate to short term advances through a current account.

21 Fixed deposits

	2018 Kshs'000	2017 Kshs'000
KCB-Escrow Fixed deposit	-	496,223
Fixed Deposit Account-DTB	-	84,986
Fina Fixed Deposit (GT Bank)	-	45,267
	-	626,476

Deposits with Kenya Commercial Bank Limited, Diamond Trust Bank and GT Bank Limited are held as a lien for bank loans and guarantees (see notes 22). The effective interest rate at 28 February 2018 was 9.71% (28 February 2017: 9.71%).

22 Cash and cash equivalents

	2018 Kshs'000	2017 Kshs'000
Cash balances	8,917	145,459
Bank balances	38,668	339,086
	47,585	484,545
Bank overdraft	(1,903,136)	(3,527,640)
Net Cash and cash equivalents	(1,855,551)	(3,043,095)

The bank overdraft facility of Kshs. 1,903,136 is from Diamond trust bank, Kenya Commercial Bank, Standard Chartered Bank and Bank of Africa and is secured by the directors' personal guarantees and backed by the legal charges over properties registered in the name of the company.

23 Share capital

	2018 Kshs'000	2017 Kshs'000
Authorized		
47,500,000 (2017: 47,500,000) ordinary shares of Kshs. 20 each	950,000	950,000
Issued and fully paid 47,167,367 (2017:47,167,367) ordinary shares of Kshs. 20 each	943,347	943,347

24 Borrowings

Bank overdrafts - Secured	1,903,136	3,527,640
Bank loans - Secured	4,791,794	4,972,167
Short-term notes - Unsecured	4,667,440	4,577,380
Other borrowings	1,297,102	1,061,783
Accrued interest	547,355	42,454
	13,206,827	14,181,424

24 Borrowings (continued)	**2018**	**2017**
	Kshs'000	**Kshs'000**
Classification:		
Current	3,175	9,604,044
Non-Current	13,203,652	4,577,380
	13,206,827	14,181,424
Movement in borrowings		
Loans		
Balance at the beginning of the year	10,653,784	10,942,521
Loans received during the year	5,723,320	9,008,513
Loans paid during the year	(5,073,414)	(9,297,250)
Balance at the end of the year	11,303,690	10,653,784

The carrying amounts of the borrowings have been measured at amortized cost but approximate to their fair value.

Reconciliation of liabilities arising from financing activities

	Long term Borrowings Kshs '000	**Finance Leases Kshs '000**	**Total Kshs '000**
Year ended 28 February 2018			
At start of year	10,653,784	118,046	10,771,830
Interest charged to profit or loss	1,516,605	12,910	1,529,515
Borrowing costs capitalized during the year	-	-	-
Foreign exchange (gain)/loss	9,727	-	9,727
Cash flows:			
Operating activities (interest paid)	1,516,605	12,910	1,529,515
Proceeds from long-term borrowings	5,723,320	-	5,723,320
Amounts financed through finance leases	-	-	-
Repayments of long-term borrowings	(5,073,414)	-	(5,073,414)
Payments under finance leases	-	(34,098)	(34,098)
At end of year	11,303,690	83,948	11,387,638

24 Borrowings (continued)

	Long term Borrowings Kshs '000	Finance Leases Kshs '000	Total Kshs '000
Year ended 28 February 2017			
At start of year	10,942,520	206,524	11,149,044
Interest charged to profit or loss	1,925,267	29,069	1,954,336
Borrowing costs capitalized during the year	-	-	-
Foreign exchange (gain)/loss	9,571	-	9,571
Cash flows:			
Operating activities (interest paid)	1,925,267	29,069	1,954,336
Proceeds from long-term borrowings	9,008,514	-	9,008,514
Amounts financed through finance leases	-	-	-
Repayments of long-term borrowings	(9,297,250)	-	(9,297,250)
Payments under finance leases	-	(88,478)	(88,478)
At end of year	10,653,784	118,046	10,771,830

The bank overdrafts and loans are secured by directors' personal guarantees, corporate guarantees executed by the company and related companies, backed by legal charges over properties registered in the names of the related companies, log books, lien over related companies' bank deposits and by a fixed and floating debenture for Kshs 1 billion issued by the company

The Company defaulted in making interest payments on most of the borrowings.

At the year-end, the Company had Kshs NILL (2017: Kshs NILL) of undrawn facilities which it may utilize to fund its obligations.

Other facilities

The Company's bankers have issued guarantees/letters of credit of Kshs 5,000,000 (2017: Kshs 293,644,929) in the ordinary course of business. These are secured by fixed deposits with the banks.

The short-term notes have no security and their repayment period varies from 30 to 91 days.

25 **Obligations under hire purchase agreements**	**2018 Kshs'000**	**2017 Kshs'000**
Amounts payable under hire purchase agreements:		
Present value of hire purchase obligation	83,948	118,046
Classification:		
Current: Amount due for settlement within 12 months	27,489	32,169
Non-Current: Amount due for settlement after 12 months	56,459	85,877
	83,948	118,046
Movement		
Obligation under hire purchase		
Balance at the beginning of the year	118,046	206,524
Payments made during the year	(34,098)	(88,478)
Balance at the end of the year	83,948	118,046

The weighted average interest rate on the obligations under hire purchase agreements as at 28 February 2018 was 14% (2017 - 15.96%). The interest rates are fixed at the contract date. All hire purchase agreements are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All hire purchase obligations are denominated in Kenya Shillings.

The carrying value of the company's hire purchase obligations approximates their fair values.

The company's obligations under the hire purchase agreements are secured by the hirer's legal charges over the assets.

26 **Trade and other payables**	**2018 Kshs'000**	**2017 Kshs'000**
Trade payable	19,430,801	18,426,774
Other Payable and Accruals	3,661,510	3,242,582
VAT Control Account	963,661	370,758
	24,055,972	22,040,114
Classification:		
Current	23,848,705	21,674,251
Non-Current	207,267	365,863
	24,055,972	22,040,114

27 Deferred tax

	2018 Kshs '000'	2017 Kshs '000'
Deferred Assets		
Stock provisions	(10,199)	(22,439)
Deferred income on customer loyalty programme	(115,069)	(115,069)
Provision for Doubtful Debts (trade debtors)	(27,922)	(27,922)
Provision for Doubtful Debts (related party)	(453,142)	(344,736)
Provision for investments	(201,699)	(201,699)
General provisions	(84,067)	(47,635)
	(892,098)	(759,500)
Deferred Liabilities		
Accelerated capital allowances	202,084	60,491
Net Deferred tax	(690,014)	(699,009)
Deferred tax movement		
Balance at the beginning of the year	(699,009)	(156,482)
Profit/loss charge: - Current year	8,995	(542,527)
	(690,014)	(699,009)

28 Comparatives

Prior year balances have been adjusted to conform to changes in presentation in the current period.

29 Contingent /commitments

a Operating Lease commitments payables	2018 Kshs '000'	2017 Kshs '000'
Within one year	909,271	2,485,023
Two years to the 5th Year	1,936,049	6,188,326
After five years	490,360	2,674,161

Operating lease commitments payables related to rentals payable by the company for its offices, retails premises, director's residential premises and equipment rental.

	2018 Kshs '000'	2017 Kshs '000'
b Operating Lease commitments Receivables		
Within one year	65,877	363,863
Two years to the 5th Year	186,431	845,823

Operating lease commitments receivables relates to sublease payments expected to be received by the company from third parties who sublet shopping space at its various outlets.

30. Financial Risk Management (Continued)

(a) Credit risk (Continued)

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

	Fully Performing Kshs. '000'	Past due Kshs. '000'	Impaired Kshs. '000'	Total Kshs. '000'
28 FEBRUARY 2018				
Financial assets				
Trade receivables	944,002	12,112	93,075	1,049,189
Other receivables	-	123,344	-	123,344
Cash at bank	38,668	-	-	38,668
28 FEBRUARY 2017				
Financial assets				
Trade receivables	417,463	2,210	93,075	512,748
Other receivables	-	119,733	-	119,733
Cash at bank	965,562	-	-	965,562

Bank balances and fixed deposits are fully performing.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. Past due amounts are those beyond the maximum established credit period, and represents low but paying customers. These receivables continue to be serviced even though this is not done on the contractual dates. Impaired debt is fully provided for.

The other receivable represents amounts held with Charter House Bank Limited. The bank was closed and is under statutory management. The company will access these funds once the bank is re-opened.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. The related party balance represents amounts owed to such parties. There are no repayment plans for these balances; the companies frequently lend and borrow funds from each other.

30. Financial Risk Management (Continued)

(b) Market risk

(i) Price risk

Price risk arises from fluctuations in the prices of equity investments at 28 February 2018 and 28 February 2017. The company did not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The company does not hedge its foreign currency risk.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of the reporting period date are as follows:

	USD Kshs'000	EURO Kshs'000
28 February 2018		
Assets		
Bank and cash balances	4,184	339
28 February 2017		
Assets		
Bank and cash balances	16,996	394
Liabilities		
Trade payables	33,248	-
Borrowings	36,030	-

(b) Market risk (Continued)

(iii) Fair value interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings. The interest rates on the borrowings are fixed and agreed upon in advance while interest rates on overdrafts are pegged to the bank's base lending rate or prevailing Treasury Bills rates. Management closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

30. Financial Risk Management (Continued)

(c) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. As at 28 February 2018 and 28 February 2017, the company had no undrawn facilities.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Kshs'000	**Between 1 -3 months Kshs'000**	**Over 3 months Kshs'000**	**Total Kshs'000**
28 February 2018				
Hire Purchase	-	-	83,948	83,948
Bank Borrowings	-	-	6,694,929	6,694,929
Bank Borrowings -(Deferred Charges)	-	-	251,460	251,460
Trade Payables	-	-	19,430,801	19,430,801
	-	-	26,461,138	26,461,138
28 February 2017				
Hire Purchase	5,254	15,574	97,218	118,046
Bank Borrowings	372,252	1,444,055	6,683,500	8,499,807
Bank Borrowings -(Deferred Charges)	42,454	-	-	42,454
Trade Payables	5,603,520	6,007,339	6,815,915	18,426,774
	6,023,480	7,466,968	13,596,633	27,087,081

31. Capital Risk Management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings disclosed in notes 24 and 25, issued capital, reserves and retained earnings as disclosed on page 13.

The company is subject to externally imposed capital requirements. Standard Chartered Bank Kenya Limited imposes a gearing ratio ceiling of 150%.

Management reviews the capital structure of the Company regularly and considers the cost of capital and the risks associated with each class of capital.

The company's overall strategy remains unchanged from 2017.

Gearing ratio	**28 February 2018 Kshs'000**	**28 February 2017 Kshs'000**
The gearing ratio at year end was as follows:		
Borrowings	13,206,827	14,181,424
Finance Lease	83,948	118,046
Bank and Cash balances	(47,585)	(1,111,021)
Net Borrowings	13,243,190	13,188,449
Share capital	943,347	943,347
Share premium	293,488	293,488
Revenue reserve	(28,894,258)	(22,332,646)
Total equity	**(27,657,423)**	**(21,095,811)**
Net debt to equity ratio	**-48%**	**-63%**

32. Subsequent events

The following events occurred after the reporting period but before the signing of the financial statements and the auditor's report;

- Major creditors filed a bankruptcy suit and applied to the court to place the company under administration this led to the company being placed under administration and the court appointed an Administrator with effect from 22 January 2018.

- On March 7, 2018, Nakumatt Nyali branch, having inventory with a value of Kshs. 208,116,566, was looted after being ejected from its premises. The management estimates the extent of the loss at 100%.

The implication of these events in the financial statements has not been assessed.