UNGA GROUP Plc

# 2019
# INTEGRATED REPORT

# NUTRITION FOR LIFE

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# CORPORATE INFORMATION

| | | |
|---|---|---|
| **DIRECTORS** | **I Ochola-Wilson (Mrs)** | - **Chairman** |
| | N C Hutchinson* | - Group Managing Director |
| | A McKittrick | |
| | A S M Ndegwa | |
| | P K Mugambi | - Alternate to A S M Ndegwa |
| | V O Ojode | |
| | J K Kibet | |
| | P O Obath | |
| | S Haria (Ms) | |
| | *British | |

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Certified Public Accountants (Nairobi)
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# TOUCHING LIVES THROUGH QUALITY NUTRITION

**WHO WE ARE**

# WHO WE ARE

**About this report**: Unga Group Plc 2019 Integrated Report has been prepared for the period 1 July 2018 to 30 June 2019 and covers the business activities of Unga Group.

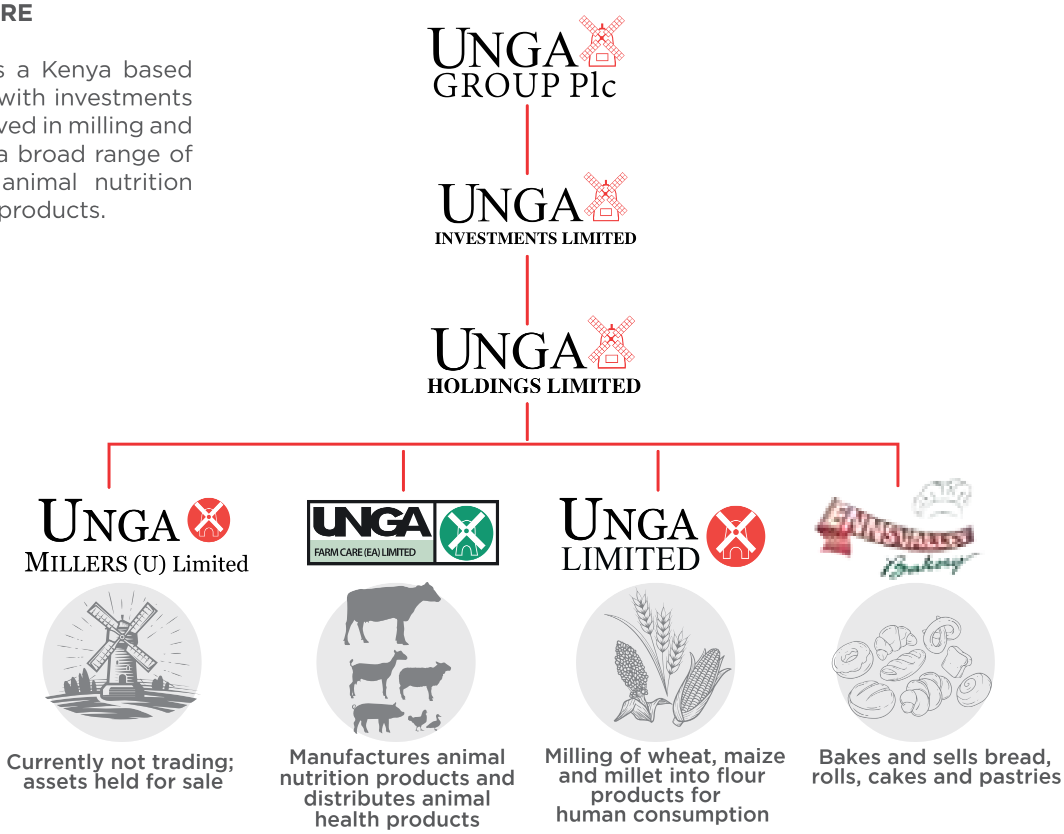
**Our journey towards integrated reporting:** Unga Group is committed to best corporate governance practices. To further enhance accountability and transparency, this year the Group continued its progress towards integrated reporting. We believe this report covers key issues in which stakeholders are interested, while providing an overview of the Group's financial and non-financial performance and how it relates to our society.

**Materiality:** This report regards material aspects as those which are likely to impact the Group's ability to achieve its strategy, while remaining commercially viable and environmentally and socially relevant. They are also issues that substantively influence the assessment and decisions of our stakeholders.

This report presents a balanced and succinct analysis of the Group's strategy, performance, governance and prospects. Potential material matters were identified through a range of processes, from engagement with our stakeholders to our own internal processes such as Board and management strategy workshops, risk assessments and consideration of international trends.

## GROUP STRUCTURE

Unga Group Plc is a Kenya based holding company with investments in businesses involved in milling and manufacturing of a broad range of human nutrition, animal nutrition and animal health products.



# WHO WE ARE (continued)

## OUR PURPOSE

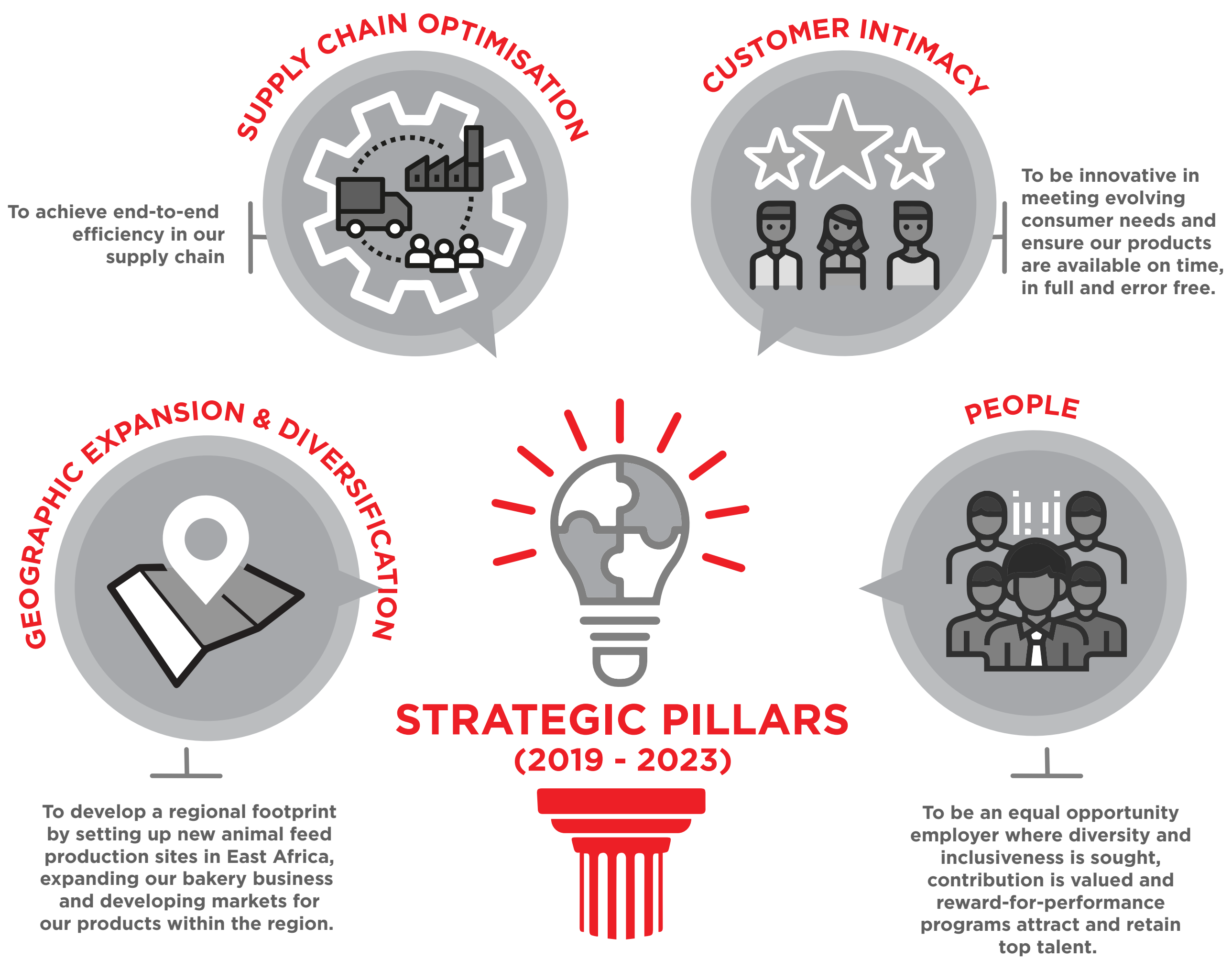
Our organisational culture defines who we are and how we work to ensure that we deliver on the expectations of our customers and other stakeholders, whilst living our STRIICT core values to achieve our vision and mission.


## OUR MISSION

To achieve and maintain market share leadership in the provision of superior human nutrition, animal nutrition and animal health products and services for the benefit of all stakeholders within East Africa.

# WHO WE ARE (continued)

## STRATEGIC PILLARS



# TOUCHING LIVES THROUGH QUALITY NUTRITION

# WHO WE ARE (continued)

## OUR HISTORY (IN BRIEF)

Unga's history in Kenya dates back over 100 years. Our outstanding presence and success attests to a heritage of consistent quality human and animal nutrition and health products across the East Africa Region.

### 1904 - 1910

1904: Lord Delamare planted his first crop of wheat on his Equator Ranch/Njoro - he was the first to grow wheat on a commercial scale in Kenya - first wheat grown in Kenya was at CMS (Church Missionary Society) Station in Machakos.

1908: Unga Limited incorporated on 28th December.

**1909: First bag of wheat flour produced at the mill situated on Sadler Street (now Koinange Street) on 5th April - packed under the brand 'Kenia's Mist'. The mill was close to where Chester House is now located.**

### 1911 - 1929

1921: New wheat mill commissioned in Njoro.

1924: Sadler Street mill sold - primarily because it was unable to compete with cheap wheat being imported from India - it was milling significantly more expensive local wheat.

**1927: All shares in Unga Limited sold to the Wheat Growers Associations, who then amalgamated with the Kenya Farmers Association in the same year.**

1928: Unga (1928) Limited incorporated.

1929: Purchased Kenya Grain Mills (who had a mill commissioned in 1925 on Commercial Street).

### 1930 - 1939

**1932: Njoro mill burnt down - new wheat mill commissioned in Eldoret.**

1937: Acquired Sun Flour Mills in Eldoret - renamed White Star Milling Company Limited.

1939: Leased wheat mill in Iringa, Tanzania.

### 1940 - 1949

1945: Commissioned wheat mill in Arusha, Tanzania; purchased Iringa mill .

**1948: Doubled capacity of Eldoret mill.**

### 1950 - 1959

1953: Proctor & Allan purchased.

1955: Uganda Grain Milling Company established; wheat milling commenced at Jinja in 1956.

**1956: Public listing as Unga Limited, trading on Nairobi Stock Exchange.**

1956: Nakuru Feeds plant opened.

1957: Nakuru wheat mill commissioned; new Eldoret wheat mill commenced production.

TOUCHING LIVES THROUGH QUALITY NUTRITION

## 1960 - 1969

1961: Assumed ownership of Elliot's Bakeries Ltd. (had been in operation since 1947).

1965: Acquired Maida Limited, Jogoo brand.

**1967: Tanzania entity nationalised.**

## 1970 - 1979

1970: Unga Millers Ltd renamed Mercat Ltd.

1973: Partnered with Elianto AG and Agricultural Development to set -up new company called Elianto Kenya Ltd based in Nakuru - factory opened by HE President Jomo Kenyatta on 2nd December.

**1976: Ugandan entity nationalised.**

## 1980 - 1989

1981: Unga Feeds established.

1984: Chester House opened.

1986: Ufuta Ltd established.

**1987: Mercat Ltd renamed Unga Group Ltd.**

## 1990 - 1999

**1991: Unga House opened.**

1994: Elliot's Bakeries sold.

1998: Bullpak Limited commenced operations (JV with Nampak SA from South Africa); Proctor & Allan sold.

1999: Unga Farm Care (EA) Ltd established.

## 2000 - 2009

2000: Seaboard Corporation Investment via Unga Holdings Ltd (65% Unga Investments Ltd. 35% Seaboard Corporation).

2002: Unga Millers (U) Ltd commenced wheat milling operations in Kampala.

**2009: 100 year anniversary.**

## 2010 - 2019

2013: New wheat mill commissioned at Commercial Street.

2014: Interest in Bullpak Limited divested.

**2015: Controlling interest acquired in Ennsvalley Bakery Ltd.**

2017: Unga Millers (U) Ltd ceased milling operations; extruded fish feed plant comissioned on Dakar Road.

2018: New wheat mill commissioned in Eldoret

2019: Soybean meal plant commissioned in Nairobi

# WHO WE ARE (continued)

## OUR VALUE CREATION BUSINESS MODEL

### INPUTS

**FINANCIAL CAPITAL**

We endeavor to ensure that our funds (from shareholders, operations and facilities) are optimally utilised to generate a sound return to our primary stakeholders

- Total Assets: Shs 10.6 Billion
- Total Equity: Shs 6.0 Billion
- Cash & Cash Equivalent: Shs 0.8 Billion

**MANUFACTURED CAPITAL**

We continually undertake investments aimed at improving our operating efficiencies and reducing costs

- 6 Production centres (Nairobi, Nakuru and Eldoret)
- 13 Manufacturing units

**INTELLECTUAL CAPITAL**

We continue to invest in key focus areas

- Enterprise Resource Planning (ERP) systems, SAP & Microsoft Dynamics (NAV)
- Cyber Security
- Customer Relationship Management (CRM)
- Weighbridge software

**HUMAN CAPITAL**

We are cognisant that to support our growth we need a team that is qualified, experienced and given adequate resources to develop their talent in an environment which embraces diversity and fosters continual improvement

- Labour Force: 586

**SOCIAL AND RELATIONSHIP CAPITAL**

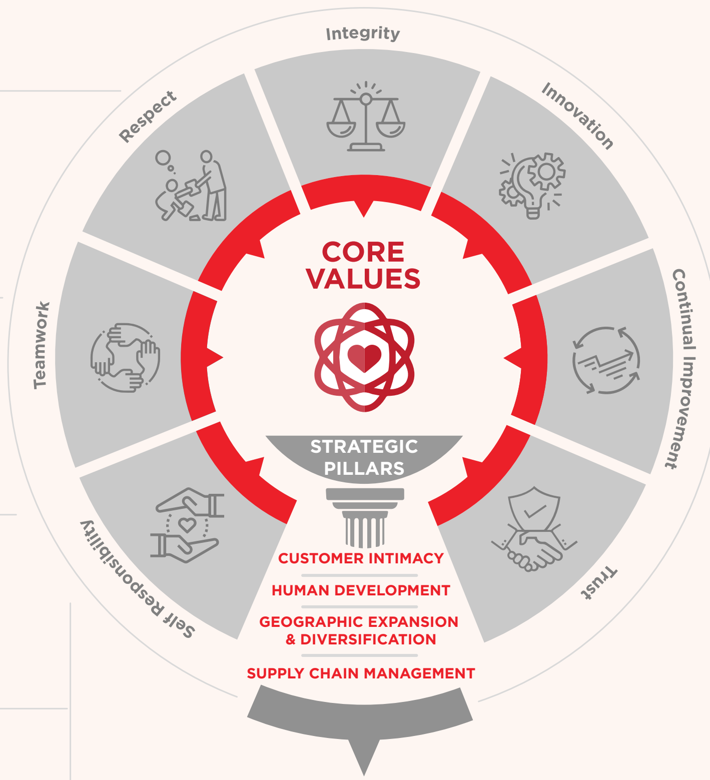
Our interaction with our stakeholders is anchored on trust and the need for mutual cooperation to drive value creation

- CSR Initiatives
- Stakeholder Engagement

**NATURAL CAPITAL**

We continually engage in eco-friendly management programs which include

- Energy conservation
- Water conservation




### BUSINESS ACTIVITIES

- Milling of wheat, maize and millet for human consumption
- Distribution of animal health products
- Manufacture of animal nutrition products
- Production and selling of baked goods

# WHO WE ARE (continued)

## OUTPUTS

- Total Wealth Created: **Shs. 2.07 Billion**
- **300 metric tons** per day state-of-the-art wheat flour mill commissioned in Eldoret
- **144 metric tons** per day soybean processing plant commissioned in Nairobi
- **Shs 18 million** allocated for corporate governance training and learning workshops for leaders, managers and supervisors
- **Shs 43 million** allocated for employee welfare
- **Shs 48 million** allocated for medical care and insurance

## OUTCOMES

**Shs. 1.24B**
EMPLOYEE BENEFITS & REMUNERATIONS

**Shs. 1.64B**
GOVERNMENT TAXES

**-10%**
SALES REVENUE

**-30%**
PROFIT FOR THE YEAR

### TALENT

**25/45**
roles filled by internal candidates

**23**
employees promoted

**0.4%**
regrettable critical talent exits

THE SYMBOL OF QUALITY • PRODUCTS YOU CAN TRUST •

UNGA LIMITED
Your Nutrition Partner

## OUR BRANDS: HUMAN NUTRITION


### Touching lives through quality nutrition

As one of the largest millers in East Africa with a heritage of over a century in grain milling, we strive to provide a variety of superior human nutrition products ranging from wheat flour products to maize meal, porridge, pulses and rice. Our range of wheat, maize and products are versatile to suit the needs of our customers. They are made from the finest and carefully selected grains to ensure they offer superior nutrition to our customers. Our range of pulses and rice products are well preserved to ensure that they maintain their natural richness and nutrition right from harvest to packaging. We accomplish all this by paying attention to detail and striving to ensure quality constistency so that we offer the very best to our customers.

EXE HOSTESS JOGOO HODARI FAMILA

# OUR BRANDS:
# ANIMAL NUTRITION & ANIMAL HEALTH

## A heritage of consistent quality animal nutrition and health products across the East Africa Region

As the region's leading manufacturer and marketer of broad portifolio of quality animal and health products, we offer a range of products to ensure that your livestock get the best in class nutrients and health care. Our range of animal feeds provide the right nutrients and offer a complete source of nutrition for poultry, cattle and pigs. We also have a range of minerals which are well balanced and formulated to derive the best results for your livestock. For the poultry range, we have a a number of premixes which can be used to make mash for chicks ranging from 1 day old to 9 weeks and even for hens. For poultry health we offer a range of vaccines for broad range of diseases protection and nutritional supplements and multivitamins.

We also have dairy premixes which are used in dairy feed formulation for higher sustained milk production. On animal health, we offer a range of products for tick control, worm management and a range of antibiotics..

# WHO WE ARE (continued)

## MATERIALITY REVIEW

**Definition:** Material issues are those that have an impact on the ability of the business to carry out its operations and maintain commercial success in the short, medium and long terms. On an annual basis, Unga undergoes a stakeholder engagement to review and update the most pressing industry trends and challenges that affect its business today and are expected to affect it tomorrow and in the years to come. These topics are then approved by the Board for further consideration.

In Kenya and across the world, key industry and consumer trends in the nutrition and health sectors are increasingly impacting our business. In line with our Sustainability agenda, we have classified these trends into four main categories: food safety and consumer health; climate change and resource scarcity; market transparency and supply availability; and finally, financial governance.

Food safety and consumer health is our number one priority. At the same time, consumers are increasingly turning to source their products from companies that are socially and environmentally conscious. Unga has embraced these trends as new opportunities to differentiate itself from the competition and remain steadfast in its position as an industry leader.

| Materiality trend | Our positioning | Our response |
|---|---|---|
| Social Sustainability | | |
| **Food safety and consumer health**<br><br>• Consumers are increasingly demanding quality, health-promoting, energy boosting and/or disease preventing ingredients.<br>• Health has emerged as a dominant purchasing criteria as concerns over the increase in diseases, obesity and food sensitivities mount.<br>• Aflatoxin, a carcinogen, remains a major challenge facing the agricultural supply chain and consumers in Kenya and the region at large.<br>• Today's successful brands must consider the entire customer experience to provide value before, during and after the purchase. | Unga's mission is meeting and exceeding customers' expectations for consistent quality and food-safe products through diligent application of quality assurance and compliance.<br><br>Unga can capture value and secure pricing premiums by differentiating offerings with value-added solutions that reflect these important consumer trends. | **Customer Intimacy**<br><br>By adhering to the highest food quality and safety standards throughout our supply chain, we ensure our raw materials, whether maize, wheat, beans or pulses for both human and animal consumption, meet the highest safety standards.<br><br>Through our annual reporting and direct engagements, we aim for transparency with our customers as well as other stakeholders, addressing issues as they arise, while also seeking to improve wider understanding of issues related to health.<br><br>Our consumer awareness drives contain relevant health information and tips, as well as specific case studies that help paint the story of our brand.<br><br>Increasing connectivity allows consumers to experience and interact on digital platforms such as social media where Unga is increasing its presence. |

# WHO WE ARE (continued)

| Materiality trend | Our positioning | Our response |
|---|---|---|
| Environmental Sustainability | | |
| **Climate change, resource scarcity, soil degradation and our own environmental footprint**<br><br>• Climate change and other environmental degradation will increasingly impact the supply of raw materials, both regionally and globally.<br>• Companies will increasingly be scrutinized by consumers regarding their sustainability impacts and how these are mitigated. | With its long-standing commitment to sustainability, Unga is an industry leader in terms of resource efficiency and pollution control in its processes. Unga is well positioned to lead and to continue to expand its sustainability commitment to all parts of its supply chain. | **Supply chain management**<br><br>Our in-house commitment to sustainable practices is in continuous progress and extended to our supply chain. In the down-stream supply chain, we engage with customers to increase awareness of sustainable practices, including in fish and poultry farming.<br><br>We take our Producer Responsibility to heart when it comes to waste and are therefore investing in developing use of biodegradable packaging materials in line with the ban on plastics.<br><br>Through partnerships and relevant initiatives, Unga will continue to engage in the up-stream supply chain on sustainable farming practices, including through use of organic inputs, as well as agro-forestry and large scale tree planting. |
| Economic Sustainability | | |
| **Market transparency and supply availability**<br><br>• As per the trend above, environmental degradation and population growth trends indicate our industry will need to produce more with fewer resources.<br>• In addition, lack of transparency in terms of availability of supply and import programs, makes it a challenge to forecast production. | Unga is one of the largest food processing company in Kenya. Its agile and diversified business enables it to absorb and manage market changes and shocks to the greatest extent possible. | **Expansion and diversification**<br><br>We will continue our focus on diversification and value addition in our portfolio to meet customer expectations of convenient and high-quality products at competitive prices. |

# WHO WE ARE (continued)

## MATERIALITY REVIEW (continued)

| Materiality trend | Our positioning | Our response |
|---|---|---|
| Financial Governance | | |
| **Adhering to the highest standards of ethics and financial governance**<br><br>• In the past few years in Kenya, examples abound of companies going under due to governance breaches. | Unga acts with integrity and transparency in all financial matters, including all tax matters.<br><br>Unga maintains zero tolerance to bribery and corruption.<br><br>Although fundamental to compliance and business management, universal adherence to such standards is not yet rampant across the region, positioning Unga as a preferred partner by international and local businesses. | **Expansion and diversification**<br><br>As a listed company, Unga has publicly disclosed its audited accounts. We will remain steadfast in our commitment to sound governance and transparency.<br><br>Our commitment to sound governance, ethics and financial transparency will be an advantage as Unga continues to develop its portfolio and form new strategic partnerships. |

# WHO WE ARE (continued)

## STAKEHOLDER ENGAGEMENT

Engagement with our stakeholders is our primary avenue for evaluating the Group's progress, performance and development needs. We believe engaging both formally and informally frequently with our stakeholders is a critical component to our current and future success.

### CUSTOMERS / CONSUMERS

Our consumers are our most important stakeholders. Through our commitment to food safety, we have established a relationship with our consumers built upon trust. As a result, today, the Unga brand has become synonymous with premium and quality products. We engage formally and informally with our customers through surveys, focus groups and other forums. Going forward we will also ramp up our direct engagement through social media and other digital platforms for a faster and more direct feedback loop.

### MEDIA

Our Media, both print and digital, is a critical platform for information and communication with consumers and other stakeholders. Unga strives to provide media channels with accurate and timely information and ensure an open and honest relationship with the media.

### SHAREHOLDERS AND INVESTORS

We provide our shareholders and investors with timely and reliable information so that they can be well versed with our business operations and performance. We communicate to them through our annual report, half yearly report, news releases, website and presentations to investors and other stakeholders upon request. The website provides extensive information about the Board of Directors, Board committees and their mandates. In addition, our Board of Directors encourages shareholder participation at the Company's annual shareholder meeting.

### SUPPLIERS & CONTRACTORS

Our commitment to providing superior human and animal nutrition products is dependent on how well we relate with our vendors. We have fostered an environment which encourages them to collaborate with us, aligning with our vision and core values.

### COMMUNITIES

We appreciate the need to ensure we not only exist in harmony with communities in our zones of operation, but also focus on uplifting and supporting them as they seek to better their lives. We have set-up opportunities in our day-to-day operations to accommodate community-focused initiatives which seek to empower the communities and assist them in protecting their environment.

### GOVERNMENT & REGULATORY BODIES

We contribute towards the appropriate regulation of our industry through constant engagement with relevant government institutions and regulatory bodies. We also engage with authorities at county level to ensure that our operations run smoothly. We showcase their overall benefit to the communities with which we interact. We pay applicable taxes and statutory contributions in a timely manner.

### EMPLOYEES

In addition to recruiting 'best in class' talent, we have availed resources to ensure our employees can grow and fulfill their potential. We provide accessible and credible channels through which they can communicate and give feedback to management, peers and subordinates

### INDUSTRY BODIES

Through active membership and/or participation, we advise the relevant authorities and contribute to industry associations. Through this engagement, we are able to support and collaborate in industry-led initiatives which have both direct and indirect impact on our operations, as well as matters of economic, social and environmental concern.

# WHO WE ARE (continued)

## SUSTAINABILITY

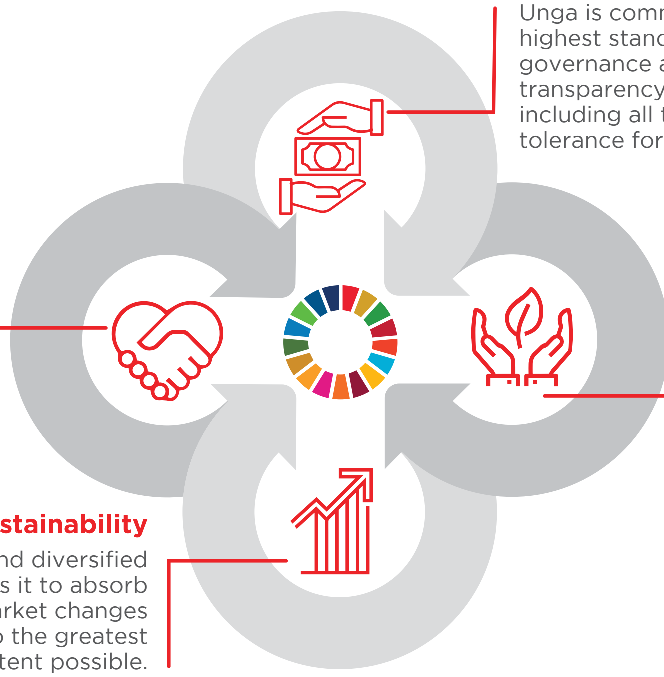
Our Sustainability agenda is centered around four key areas; Social, Environmental, Economic and Financial which are intrinsically linked in a long-term sustainable business.

### Financial Governance

Unga is committtted to adhering to the highest standards of ethics and financial governance and acts with integrity and transparency in all financial matters, including all tax matters and has a zero tolerance for bribery.

### Social Sustainability

Food safety and consumer health is our core focus. Unga's mission is meeting and exceeding customers' expectations for consistent quality and food-safe products through the diligent application of quality assurance and compliance.

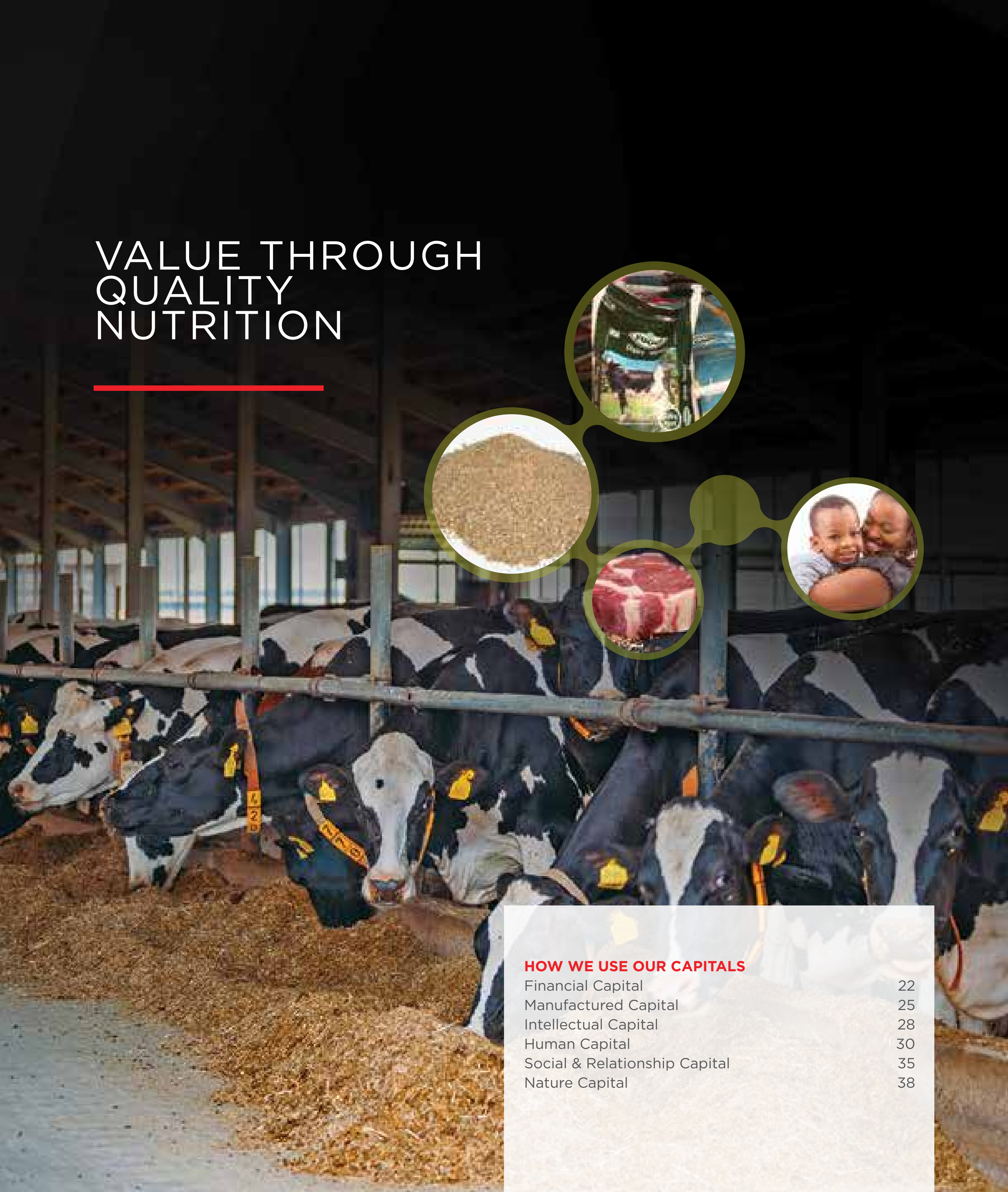


### Environmental Sustainability

Climate change, resource scarcity, soil degradation and our own environmental footprint are areas of concern. Unga is well positioned to lead and is committed to continue to expand its sustainability commitment to all parts of its supply chain.

### Economic Sustainability

Unga's agile and diversified business enables it to absorb and manage market changes and shocks to the greatest extent possible.



# VALUE THROUGH QUALITY NUTRITION

## HOW WE USE OUR CAPITALS

# HOW WE USE OUR CAPITAL

## FINANCIAL CAPITAL

Our operations are anchored on efficient and effective allocation of financial capital. The source of funds is a combination of cash generated from operations, banking facilities from lending institutions and cash injections from shareholders. By optimising the use of financial resources we ensure that our employees, suppliers, distributors and shareholders receive reasonable returns.

# HOW WE USE OUR CAPITAL (continued)

## FINANCIAL CAPITAL (continued)

### Value Added Statement

"Value added" is the worth we have added to purchased materials and goods by process of manufacture and conversion, and the sale of its products and services. This statement shows how the value so added has been distributed.

| | 2019 Shs'000 | % | 2018 Shs'000 | % |
|---|---|---|---|---|
| Revenue | 17,895,670 | | 19,982,070 | |
| Net cost of raw materials, goods and services | (15,940,494) | | (17,606,292) | |
| Wealth created by trading operations | 1,955,176 | | 2,375,778 | |
| Finance income | 62,990 | | 116,649 | |
| **Total wealth created** | **2,018,166** | | **2,492,427** | |
| *Distributed as follows* | | | | |
| Employees | | | | |
| Benefits and remuneration | 1,236,216 | 61.3 | 1,102,375 | 44.2 |
| Governments | | | | |
| Taxation | 70,388 | 3.5 | 510,492 | 20.5 |
| Providers of capital | 242,455 | 12.0 | 166,493 | 6.7 |
| Finance charges | 166,748 | 8.3 | 90,786 | 3.6 |
| Distributions to shareholders | 75,707 | 3.8 | 75,707 | 3.0 |
| Retained for growth | 469,107 | 23.2 | 713,067 | 28.6 |
| Depreciation and amortisation | 406,219 | 20.1 | 373,537 | 15.0 |
| Profit for the year attributable to shareholders of the Company | 62,888 | 3.1 | 339,530 | 13.6 |
| | **2,018,166** | | **2,492,427** | |

# HOW WE USE OUR CAPITAL (continued)

## FINANCIAL CAPITAL (continued)

### Contribution to Public Finances

We continue to be committed to acting with integrity and transparency in all tax matters. This is important given that our contribution to public finances represents a major part of our positive impact in the society in which we operate. To demonstrate this transparency, below we make a public statement of the amount of cash transferred from the Group to the Government. This year, we paid taxes to the Government of Kenya amounting to Shs 1,641,510,000 in cash, made up as follows:

**Exchanges with government**
*including amounts collected on their behalf*

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Employee taxes | 209,410 | 188,693 |
| Company taxes | 540,841 | 33,501 |
| Value added tax and sales tax | 10,819 | 6,128 |
| Customs and excise duty | 630,142 | 438,418 |
| Tax collected on behalf of government | 249,374 | 279,096 |
| Other | 325 | 349 |
| | **1,640,911** | **946,185** |

The Group's tax charge for 2019 of Shs 70,388,000 was 86% lower than the prior year (2018: Shs 510,492,000) due to capital allowances from our investment in additional milling capacity and soybean processing capability. This report is presented on an actual cash-paid basis, in addition to our statutory reporting, to provide the clearest possible insight into the scale of cash flowing from the Group to the Government.

The Group has continued to engage with the Kenya Revenue Authority to address challenges faced in collecting VAT refunds outstanding for several years. In total the amounts claimed, approved and pending refund amount to Shs 401,050,413. We acknowledge that effort was put in FY2018/19 to pay some of the outstanding amount but more needs to be done. The continued delay in the Group's receipt of these funds poses a risk to its liquidity and consequently the ability to continue to make a positive impact in society.

# HOW WE USE OUR CAPITAL (continued)

## MANUFACTURED CAPITAL

We have continued to make significant investments in our operating infrastructure to enhance our efficiency and effectiveness. This financial year, we commissioned in a new state-of-the -art 300 metric tons per day wheat flour mill in Eldoret to meet the increasing demand for quality flour in the region.

In our endeavor to lower our costs and control the quality of our critical raw materials, we also commissioned a new 144 metric ton per day soybean processing plant. The plant will furnish our animal nutrition business with both full fat and standard soy meal.

Below are the other investment initiatives undertaken at our various sites to enhance efficiencies.

# HOW WE USE OUR CAPITAL (continued)

## MANUFACTURED CAPITAL (continued)

### Yield Improvement Related

- Improved flour extraction rates with the new wheat mill
- Skills upgrade to millers and roller operators on mill management significantly improving operational efficiency
- Commissioned a new dough divider to improve productivity and to ensure consistent quality of our baked goods

### Energy Related

- Installed a smaller fan in wheat screen room to save on energy consumption

### Cost Related

- Installed high speed packing machine which increased the volume of flour that can be packed per day and has enabled us to respond to increased breading flour demand
- Installed a scale to weigh maize transferred from the silo to the mill thus improving reconciliation processes
- New soybean processing plant expected to lower feed manufacturing cost

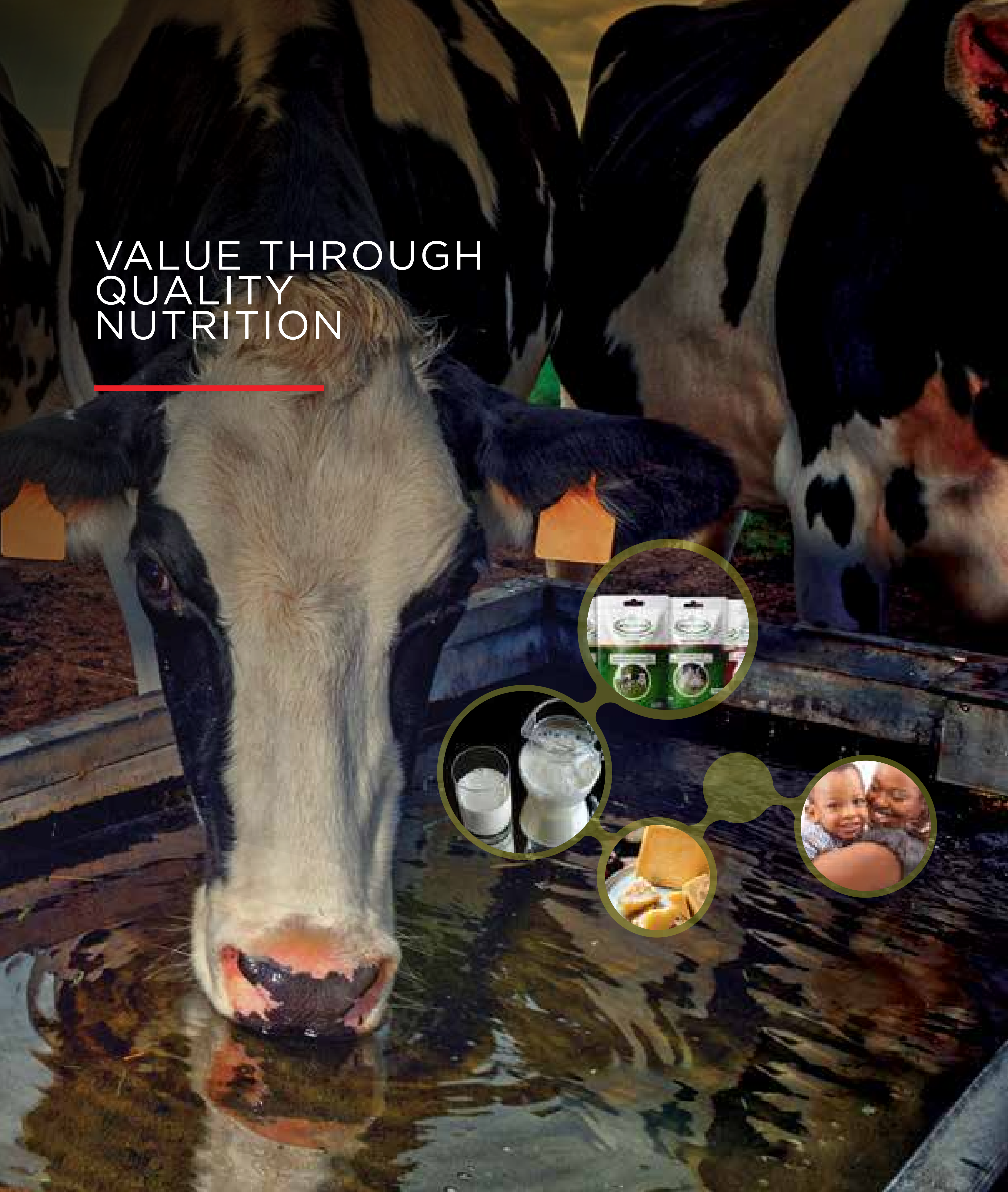
### Time Related

- Installed a flow balancer at the wheat silo conveyor to enable gristing at the silo as opposed to gristing in the mill

### Food Safety Related

- Reorganised flow of maize mill screen room machines to improve the grain cleaning process (microbial compliance)

# VALUE THROUGH QUALITY NUTRITION



# HOW WE USE OUR CAPITAL (continued)

## INTELLECTUAL CAPITAL

### SAP ERP & DIGITAL TRANSFORMATION

The SAP Business modules (Finance, Sales & Distribution, Procurement, Human Resources and payroll) have matured in ulitilisation. ICT and the relevant Business areas are working to further develop the modules so as to enhance efficiencies and gain a competitive edge.

Unga was voted the best in Digital Transformation for manufacturing companies in both the East Africa CIO awards and the Smart SMD Summit & Awards (2019).

The next area of focus is to improve the Business Intelligence capability, Customer Relationship Management and Financial Consolidation. We are pursuing use of SAP and alternate solutions so that this is executed as fastest as possible.

Digital Transformation is a continual process and some of the areas being pursued are IoT (Internet of Things), Robotic Process Automation (RPA) and use of AI (Artificial Intelligence) where practically possible and financially viable. Also very key is execution of projects that improve end customer intimacy and visibility.

# HOW WE USE OUR CAPITAL (continued)

## INTELLECTUAL CAPITAL (continued)

### CYBERSECURITY & SERVICE DELIVERY

Unga has made great strides in cybersecurity. This has been as a result of a multi-pronged approach directed by a solid cybersecurity strategy. Our systems were ranked well when a Vulnerability Assessment and Penetration Testing (VAPT) was carried out to assess our preparedness. The systems have also performed well in audits carried out by external auditors.

Some of the projects completed so far to improve security posture and ICT service delivery are:

- Next Generation Firewall where a world class Checkpoint 5600 has been commissioned together with Sandblast for mobile device security
- Colocation of the SAP DR Server finalised at a local Data Centre, a first Uptime Institute Tier III certified Data Centre in East Africa, which is also ISO 27001 certified. Testing of a SAP downtime disaster has been simulated with positive results
- A secure cloud managed WiFi firewall was put in place at Commercial Street. Plan to rollout to other sites in the FY 2019/20
- Office 365 has been commissioned at all Unga sites. This brings in the reliability with cloud business email that guarantees 99.9% uptime
- Cybersecurity awareness training has been ongoing for over a year and lending to a more aware workforce that can identify phishing emails and risky sites thereby providing the first layer of security.

The execution of the cybersecurity Strategy is on course and more exciting projects are lined up for the FY 2019/20. The great focus is now on improved service delivery.

# HOW WE USE OUR CAPITAL (continued)

## HUMAN CAPITAL

At Unga, our people are the most important resource we have for the success of our business. We strive to support business growth through enhanced employee productivity by providing well qualified and experienced talent for our business requirements. We embrace diversity and are privileged to have two generations working in our business. We focus on employee development and provide opportunities to our employees to enhance their skills and competencies. We endeavor to have our policies, procedures and processes embedded on the principles of Continual Improvement thus driving organisation performance. Being a highly diverse team, we continuously work on improving our culture and integrating our core values in all we do for the greater good.

# HOW WE USE OUR CAPITAL (continued)

## HUMAN CAPITAL

### PERFORMANCE MANAGEMENT

We continue to ensure our individual goals are aligned to the overall strategic objectives of the business. It is critical for us to ensure individual performance reflects that of the Group. We have embedded Performance Management in support of enhancing employee productivity.

Performance Improvement Plans (PIPs) were implemented across the business in a more elaborate way through inclusivity to ensure all our employees understood and appreciated the value in the process. This significantly changed the way employees viewed PIPs and thus improved the employee-manager relationship among the various departments. Feedback, a critical element of performance management, training initiatives were undertaken to elevate the competences in Managers, Supervisors and Team Leaders on how to give and receive feedback; this has enhanced the quality of our performance reviews.

### TALENT MANAGEMENT

Having the right talent in the backbone of our performance. Through succession planning we strive to have a pool of well prepared employees to take up more challenging roles when opportunities arise. We also support skills enhancement through initiatives of job rotations and secondment within Unga businesses, providing more exposure and growth opportunities, thus enhancing employee retention.

As part of Talent Development, five (5) employees successfully completed and graduated from the African Milling School during the year; the skills obtained have positively impacted on the quality of products we produce for our customers and consumers. We also took our Supervisors and Team Leaders through a comprehensive 6-month Management Development Program that included learning labs and project-based learning to help them improve their people management skills. This has had a positive impact on our teams thus improving employee management at all levels. In an effort to enhance organisation learning, we have embraced digital learning as a method of continually improving employee skills and competencies.

# HOW WE USE OUR CAPITAL (continued)

## HUMAN CAPITAL (continued)

### EMPLOYEE RECOGNITION

*The winning team celebrate their award during one of our PaTaMu events.*

We strive to maintain our competitiveness as an employer of choice in the market through our reward and remuneration policies. We also participate in annual remuneration surveys for benchmarking purposes. During the year, we aligned our commissions structure to be more attractive with focus of spurring higher performance amongst our sales teams. In support of employee retention we continue to celebrate our long serving employees who have committed many of their years of service to us. We have incorporated, among others, employee of the month recognition schemes to uphold the Unga way of life and acknowledge the different contributions that support our core values.

### ORGANISATION CHANGE & DEVELOPMENT

It is critical to have an organisation structure that supports current and future business needs as well as facilitates timely decision making. Our Culture is the bedrock of how we do things at Unga. We strive to improve this through our ongoing culture journey, embedded on our STRIICT Values. We participated in various surveys including Entropy, 'Best Company to Work For' and Engagement that helped provide assessment of our culture journey to date. This involved taking into consideration employee feedback regarding their expectations and areas of improvement through focus group discussions. In support of this journey, we've developed Culture Action Plans that we're executing on as we better our workplace.

All people managers are committed to this process and have adopted this as one of their Key Performance Indicators, measured in their individual performance goals.

We have a team of Culture Champions at all our sites who support our Culture Journey through managing various engagement initiatives. This has greatly contributed to improving our culture through taking into consideration the specific requirements for each site and age groups. We continue on this journey and look forward to positive impact as we progress.

# HOW WE USE OUR CAPITAL (continued)

## HR EFFECTIVENESS

We strive to achieve high levels of employee productivity through aligning a robust organisation structure with our production and sales strategy. We have improved management of our outsourced labour through better contracting and aligning remuneration to output leading to pay for performance. This has enabled productivity improvements and efficient labour management.

To encourage work-life balance, we enhanced our leave management policy to encourage our employees to take a break from work to get some rest and spend time with their families. This has resulted to more engaged employees and reduced the cost of leave accruals thus contributing to the businesses' profitability.

Employee wellness is an important aspect of managing people. We provide good medical cover that supports employees and their families. We provided regular health talks and comprehensive wellness checks during the year, where employees had an opportunity to interact with different medical providers at the work place for health and wellness guidance. This has significantly contributed in improving the general wellness of employees, which is reflected in our reduced medical spend.

We ensure the environment we operate in is clean and cognisant of pollution. We participate in various cleaning and tree planting community initiatives and are making efforts to support the going green agenda going forward.

*Unga staff do a group activity during the wellness day.*

## HR DATA

Labour productivity against benchmarks

| BUSINESS | TARGET | ACHIEVED | PRODUCTIVITY STATUS |
|---|---|---|---|
| Unga Limited | 4.6% | 5.5% | Decline in sales and revenue. |
| Unga Farm Care (EA) Limited | 4.7% | 5.7% | Townhall meetings to better communicate with staff. |
| Ennsvalley Bakery Limited | 22.3% | 25.0% | Staff rationalisation |

# HOW WE USE OUR CAPITAL (continued)

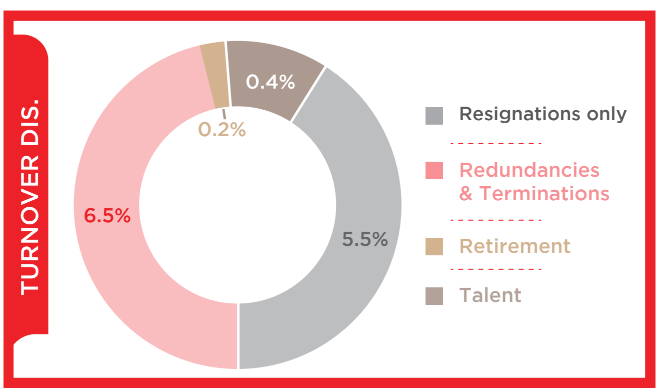
## HUMAN CAPITAL (continued)

### Labour Turnover

Our labour turnover was at 12.6% for the Group, an improvement of 2.4% from prior year. Most of turnover was driven by the restructuring program at Ennsvalley Bakery leading to redundancies and terminations of 6.5% in the Group. 5.5% were voluntary resignations to pursue other opportunities, of which 0.4% were regrettable critical talent exits.

| BUSINESS | TOTAL TURNOVER |
|---|---|
| Unga Limited | 10.0% |
| Unga Farm Care (EA) Limited | 6.7% |
| Ennsvalley Bakery Limited | 25.4% |
| **Group** | **12.6%** |

### Turnover Distribution



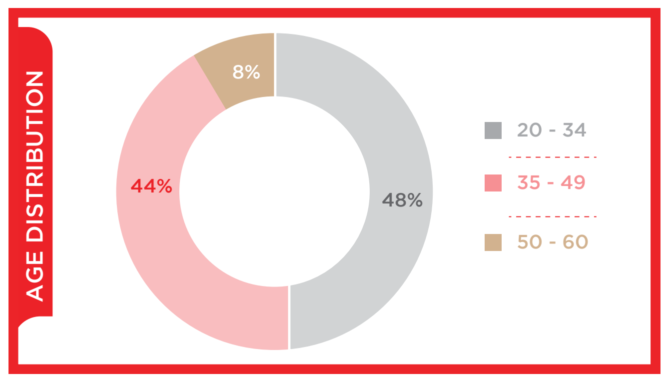

### Diversity

*i) Headcount*

| | UL | UF | EBL | TOTAL |
|---|---|---|---|---|
| Production | 126 | 85 | 95 | **306** |
| Sales | 24 | 33 | 43 | **100** |
| Distribution | 26 | 24 | 22 | **72** |
| Management & Admin | 49 | 38 | 21 | **108** |
| **Total** | **225** | **180** | **181** | **586** |

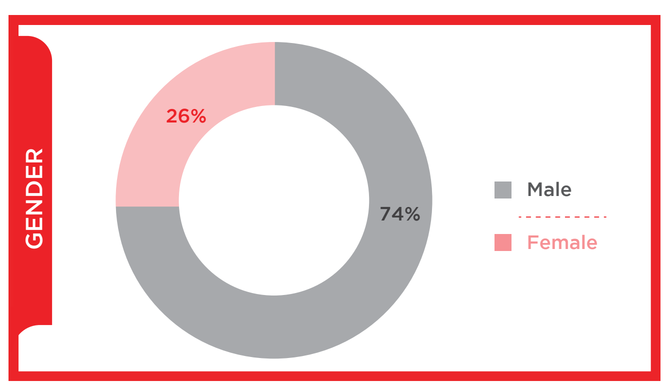
*ii) Age Distribution*

| Age Bracket | UL | UF | EBL | TOTAL |
|---|---|---|---|---|
| 20 to 34 | 100 | 85 | 96 | **281** |
| 35 to 49 | 100 | 79 | 80 | **259** |
| 50 to 60 | 25 | 16 | 5 | **46** |
| **Total** | **225** | **180** | **181** | **586** |




*iii) Gender Distribution*

| Gender | UL | UF | EBL | TOTAL |
|---|---|---|---|---|
| Male | 177 | 138 | 119 | **434** |
| Female | 48 | 42 | 62 | **152** |
| **Total** | **225** | **180** | **181** | **586** |



# HOW WE USE OUR CAPITAL (continued)

## SOCIAL & RELATIONSHIP CAPITAL

**Unga's social and relationship capital spans its relationship and trust with consumers and customers, our staff, suppliers & contractors, regulators, government, shareholders and other stakeholders. Without these relationships we cannot do business.**

# HOW WE USE OUR CAPITAL (continued)

## SOCIAL & RELATIONSHIP CAPITAL

Unga takes great pride in being an engaged citizen, especially in local communities where our operations are present. All across the country Unga has initiated community programs, selected and managed by the staff at each plant.

**Unga supports sustainable schooling in Eldoret to source safe and nutritional staples**

One such initiative that we have engaged in is at Wareng High School, a mixed day school and the largest by enrolment in Uasin Gishu County. Although the school's catchment area is mainly low-income families, it is also among top performing schools in the county, with a large portion of students continuing both to university and technical colleges. The school prides itself in being a well-managed, cost efficient establishment in which students excel at a fraction of the cost of many public schools.

With over 1,200 students, the school is steadily expanding to accommodate population growth and the government's policy on compulsory secondary school attendance. Faced with mounting pressures on facilities and budgets, school management turned to the corporate sector for support.

Management's idea was to save costs by producing on-site regularly consumed staples. Bread, milk and meat, for example, hit the school's budget hard, but management crunched some numbers to determine areas of possible cost savings. At around the same time, Unga Limited-Eldoret Plant was looking for a public school located nearby where they would sponsor bright but needy students.

In 2015, a partnership between the Eldoret plant and Wareng High was formed to support the development of a bakery through upfront capital and technical and management support. Unga trained bakery staff on efficient baking methods to ensure cost efficient production. Today, the bakery produces all the bread consumed by students on site, resulting in cost savings for the school of Shs 220,000 per term.

According to Wareng High Principal Mr J. Kamatei, given the fundamental role nutrition plays in student learning and development abilities, the school has invested in supporting students to meet their daily nutritional requirements.

*Students of Wareng High School enjoying bread from their bakery*

In the past, bread purchased for the students' morning snack was often mouldy. Students complained of stomach problems and sometimes had to stay home. For the majority of students, this is the first meal of the day, so it is important. School lunches further provide a balanced diet of starch, protein and vegetables.
"Today, our students eat bread baked on site and from a trusted quality source. Students are more productive

# HOW WE USE OUR CAPITAL (continued)

after consuming more regular nutritious meals. And, as the food is made and served on the school's premises, we can ensure a certain level of hygiene and at the same time students don't expend extra time leaving the school grounds to buy their food," added Mr Kamatei.

Meanwhile, bakery staff attest to Unga's superior quality and cost savings. "Unga recently led a baking test and the results were quite remarkable. Bread was produced at a higher quality and at a lower cost," according to Robi, one of the school's bakers.

Food safety and quality, an end-to-end process starts with the raw material all the way to milling, handling and storage. Unga staff are thoroughly trained in proper milling techniques, while its handling processes ensure product quality, including lab testing as part of quality assurance. Unga fortifies its wheat flour with vitamins and minerals to further improve nutritional value in line with legal requirements.

A critical component for Unga is customer support for optimal product use under its Product Food Safety Policy anchored in its ISO 22000: 2005 certification.

According to Unga Limited-Eldoret Plant Manager, Peris Wabere, "We are very proud of our partnership with Wareng High School. Not only does it exemplify how the private sector can support creation of a sustainable school in the truest sense, but our focus on food safety and quality also enables us to play an important role in supporting student awareness around healthy foods and wellness."

Unga has also supported a tree planting project so that wood may now be sustainably sourced for use as firewood. This is estimated to save the school another Shs 100,000 per term.

Wareng High School management is considering expanding the capacity to sell bread outside the school to generate additional revenue. In addition to the bakery and sustainable forest, the school owns dairy cows. In the near future, it plans to add beef cattle.

Students have a rotating schedule to plan and assist with the various tasks. This has the added benefit of teaching them project planning and budgeting.

As a result of the initiatives, the school has built four new classrooms and an additional new block is near complete, which will provide much needed space for the fast-growing student population. The school is also able to support 20 low-income students with school fees and aims to double this to 40 students in the near future.

# HOW WE USE OUR CAPITAL (continued)

## NATURE CAPITAL

**At Unga we are committed to business and product development that is sustainable and delivers maximum value to the customer whilst minimising impact on the environment. An example is Unga's Fugo Tilapia Fish Feed product offering, shaped by sustainanble consumer needs.**

# HOW WE USE OUR CAPITAL (continued)

## NATURE CAPITAL

### FISH FARMING ON LAKE VICTORIA AND IN KAKAMEGA COUNTY

Due to overfishing and environmental factors, wild fish stocks have reduced in all of Sub-Saharan Africa's great lakes, including in Lake Victoria, where wild fish catches have reduced by over 50% in the past two decades, according to KMFRI.

At the same time, consumer demand has risen, meaning that the 140,000 tons of locally caught fish no longer meets the annual national demand of 500,000 tons. Kenya has filled this void largely through fish imports from Asia.

In any effort to improve national food security, cage and pond fish farms are springing up around the shores of Lake Victoria. In response to this, Unga Farm Care (EA) Limited, a subsidiary of Unga Group Plc, launched Unga's Fugo Tilapia Fish Feed, hoping to assist local fish farmers and encourage others to consider investing in the sector.

Unga Farm Care's Technical Sales Representative for the Lake Victoria region, Stephen Odeny, cautions that, "Cage culture can impact the environment and ecosystem negatively if sustainable practices are not followed. Unga Farm Care has therefore taken care to offer a competitively priced quality product and to provide ongoing customer support so its product is used efficiently and effectively as part of a holistic approach to aquaculture to ensure sustainability of the Lake for years to come."

Since the product's 2018 launch, it has received exciting market uptake and feedback. One such customer-African Blue Limited-opened a sustainable commercial cage fish farm on the shores of Lake Victoria in 2015 which today harvests significant quantities of Nile Perch.

According to African Blue Production Manager, Belinda Omollo, "Fish feed is one of the most critical inputs for a fish farm and also the costliest—typically up to 70% of operational costs. It is therefore imperative to have a reliable source of quality affordable fishfeed."

Africa Blue switched to Unga's Fugo Tilapia Fish Feed and has seen a positive impact on its yield since doing so. Whereas in the past, they imported feeds from Mauritius, Israel, Egypt and others, meaning that they would hold a lot of cash in stocks, they now do not have to worry about this. With Unga's plant in Nairobi, African Blue is able to place orders and receive the same within 48 hrs. This has reduced their stock holding by more than two thirds. Imported feeds lands at the farm at over USD 1,300/Mt; whereas Unga Farm Care's feeds are well below USD 1,000/Mt.

"When we can procure our inputs locally, that makes the most sense. Unga's Fugo Tilapia Fish Feed responds to our need for high quality, well priced fish feed. We also value Unga's focus on quality and sustainability. It resonates well with our own practices," added Ms. Omollo.

# HOW WE USE OUR CAPITAL (continued)

## NATURE CAPITAL (continued)

It is easy to understand why African Blue and Unga Farm Care work well together. African Blue has developed its business around its sustainability commitment to ensure its operations do not disrupt the Lake's ecosystem. Unga Farm Care, together with it's technical partners-Farm Africa and Msingi East Africa-have supported African Blue as well as many small-scale operations around the lake in maintaining sustainable farming practices.

For example, African Blue ensures sufficient space between cages to avoid overcrowding and overfeeding that can otherwise lead to disease, parasites and decomposing food deposits that can spread to surrounding waters.

At the same time, fish growth is monitored and measured every two weeks and feed is adjusted accordingly to ensure the correct amount is apportioned. Staff who achieve the highest "feed conversation ratio," in other words, where the optimum amount of feed is used to produce 1 kg of meat, receives a bonus. Ms. Omollo also flags that for fish, this ratio is near 1:1 which is more efficient than compared to beef (approximately 13:1), pork (approximately 3:1) and poultry (approximately 2:1).

Fish is harvested three days per week and sold at the farm gate as well as at an outlet in Kisumu and directly to restaurants and hotels. Ms. Omollo highlights that the fish from African Blue farm is known to be very tasty as it is grown with sustainable practices in the deepest parts of the lake.

The farm currently employs 15 people, all locals. They also rely on ice provided by a local business. Other local businesses such as kiosks and small restaurants have also benefited from the new customers who buy fish at the farm gate.

Unga Farm Care believes supporting like-minded customers such as African Blue is the key to future food security and overall prospects for future business growth. Afterall, Unga Farm's Mr. Odeny notes, "Quality, safety and sustainability are the backbone of our product offerings. It is in our own interest to provide training and support on sustainable fishing practices as a flourishing and

*African Blue cage fish farm on Lake Victoria*

*Feeding time*

# HOW WE USE OUR CAPITAL (continued)

*African Blue cage fish farm Manager, Ms. Omollo*

sustainable fishing industry provides us with a market for our product in the long term."

As with all Unga products, whether for human or animal consumption, quality, safety and sustainability are key drivers in product development in line with our Mission "Nutrition for Life." Unga Farm Care's success to date is largely due to three key strategic factors, namely its:

- Quality product which has had a demonstratable impact on fishery yields. All raw materials, such as maize and soybean, undergo rigorous lab testing to ensure best international standard quality fish feed. Unga is currently carrying out tests at fish ponds in Kakamega County where higher yields with Fugo Tilapia Fish Feed are being recorded than for competing brands.
- Competitive price based on local production. Fish Feed is typically expensive in most African countries due to a lack of local millers producing high quality and affordable fish feed. To date, a large portion of fish feed is imported in to Kenya.
- Customer support: Area representatives are in constant contact with Unga Farm Care customers to respond to queries and provide technical support. Unga Farm Care has partnered with Farm Africa to provide monthly training sessions on farming techniques, including stocking density, feeding, monitoring and harvesting in line with sustainable fishing practices. In line with Unga's Customer Care Policy, all products-new products in particular-are accompanied by training and technical support for optimal use and cost efficiency.

# HOW WE USE OUR CAPITAL (continued)

## NATURE CAPITAL (continued)

### UNGA FARM CARE (EA) LIMITED PARTNERSHIP WITH THE FISHERIES DEPARTMENT OF COUNTY GOVERNMENT OF KAKAMEGA

Another example of sustainable product development by Unga Farm Care (EA) Limited is in Kakamega County which has embarked on an aquaculture program across the entire County. With this in mind and recognising the good work by Unga Farm Care, the CEC of Agriculture, Livestock and Fisheries made contact with Unga Farm Care to develop a plan. The key points agreed for partnership were around availability of cost efficient feed and technical support to farmers.

The joint program supports the establishment of Farmer Field Schools each constituting between 25 and 30 fish farmers. The programme will engage the Kakamega County Fish Farmers Cooperative Society Limited in a module that allows the cooperative to make available fish feeds to its members within the County at a cost that will be both friendly and at the same time ensure sustainability of the cooperative in supporting fish farming in the County. The programme will carry out farm trials using Unga Farm Care's Fugo Tilapia Fish Feed at 13 sites.

**"Quality, safety and sustainability are the backbone of our product offerings. It is in our own interest to provide training and support on sustainable fishing practices as a flourishing and sustainable fishing industry provides us with a market for our product in the long term."**

# VARIETY OF FOODS THROUGH QUALITY NUTRITION

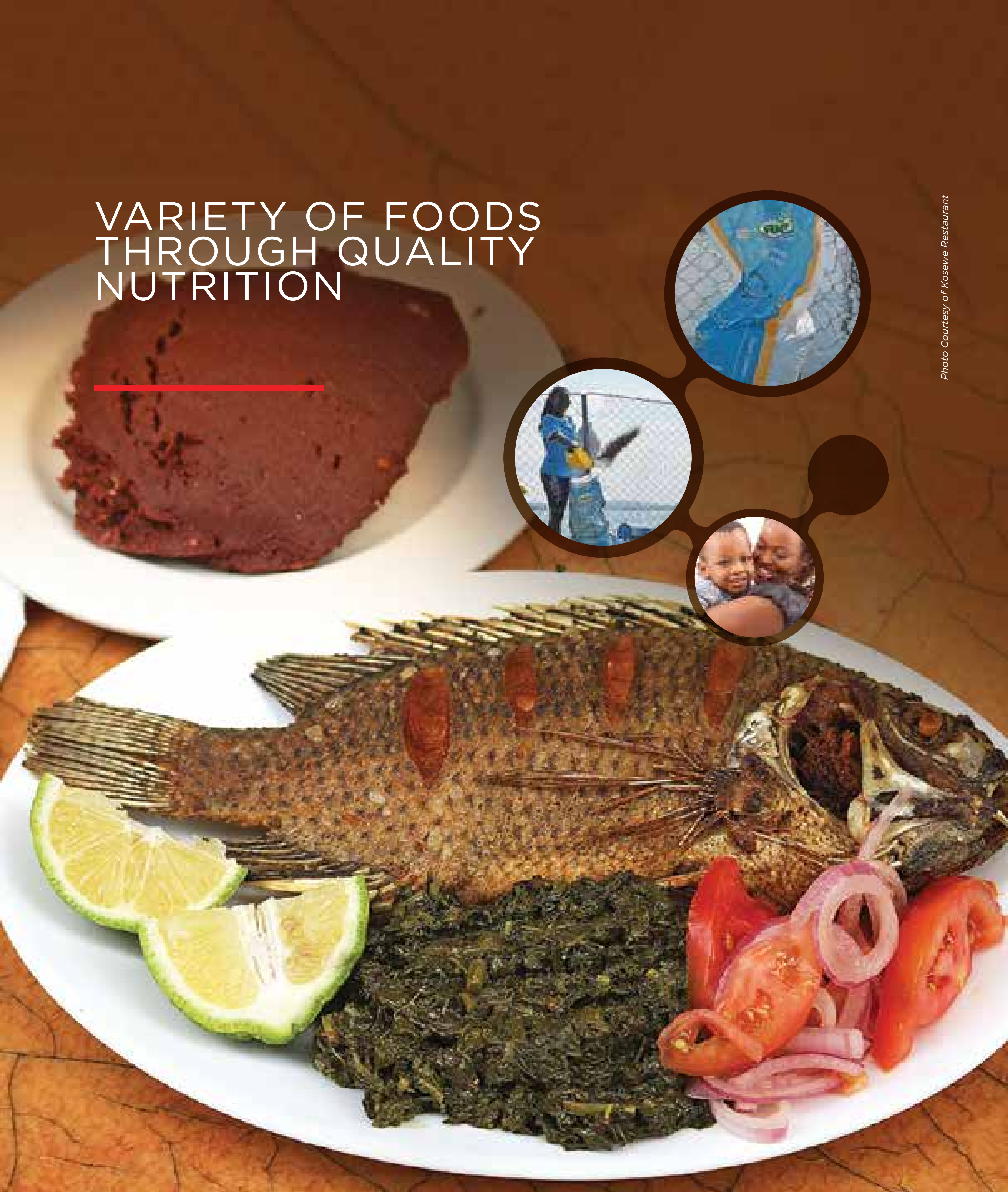


Photo Courtesy of Kosewe Restaurant

# VARIETY OF FOODS THROUGH QUALITY NUTRITION

PERFORMANCE AND FUTURE OUTLOOK

# PERFORMANCE AND FUTURE OUTLOOK

## CHAIRMAN'S STATEMENT

**At Unga, we stand at a strategic crossroads and are evaluating our options carefully. In this year's Materiality Review, we have outlined four fundamental trends we believe are increasingly critical for future success in East Africa's food and feed industry. These relate to food safety and consumer health, raw material supply, climate change and financial governance. Based on this, we believe Unga is uniquely positioned to continue to innovate and remain a long-term industry leader.**

**Isabella Ochola-Wilson**
*Chairman*

REVENUE
Shs.**17.9B**

PROFIT FOR THE YEAR
Shs.**0.54B**

EARNINGS PER SHARE
Shs.**4.52**

CAPITAL EXPENDITURE
Shs.**0.96B**

**Year in review**
The Financial Statements for the year ending 30 June 2019, reflect a tough year related to restricted grain supply in the maize segment, as well as somewhat suppressed consumer demand in the wheat segment. This is in steep contrast to the exceptional performance we saw during the previous reporting year, but not wholly unexpected given the fluctuating performance we have seen in prior years due to the influences of external factors beyond our control-such as the availability and price of raw materials, foreign exchange rates, inflation, consumer purchasing power and political decisions.

It is important to note that over the long-term, the overall performance of Unga Group Plc continues on a gradual upward trajectory. Under the circumstances, I am pleased to report a net profit for this fiscal year after tax of Shs. 545 million.

As Chairman of the Board of Directors, it is my responsibility, together with that of my fellow Board Members, to continuously evaluate the pertinent risks and opportunities that determine what will truly make a human food and animal feed company commercially and financially successful in Kenya and the East Africa Region in the long run.

We are aware of rapid changes in customer dynamics and preferences brought about by factors such as regional urbanisation, education, increased income levels and technological disruption. In response to this, Unga is constantly innovating and developing new product offerings to deliver on consumer expectations based on quality, choice, price as well as methods of delivery.

# PERFORMANCE AND FUTURE OUTLOOK (continued)

## CHAIRMAN'S STATEMENT (continued)

Worldwide, Millennials and Generation Z, as a fast-growing consumer base, are an increasingly important target market for our current and future business. They are more discerning and more demanding than previous generations in terms of their purchase decisions, looking for brand transparency, authenticity and story. Rapidly changing lifestyles and limited time cause them to seek out food brands that offer convenience and they are demanding that foods are healthy and safe.

This generation is also-rightly so-more socially aware and actively seeking out companies that adhere to high ethical standards and practice good corporate citizenship. In turn, we are forced to package our value proposition to ensure it meets these high expectations.

Our current corporate strategy which runs until 2023, holistically addresses these trends through our strategic pillars. Our Vision statement - "Nutrition for Life" - echoes our longstanding appreciation for the environmental, social, economic and financial factors that impact our company. It embraces a future in which our attention to each of these factors, enhances our ability to remain a product line of choice. To support our strategy, we, at Unga Group Plc, have made a commitment to the highest standards of governance as reflected in our Code of Ethics and Conduct and associated policies.

### Industry trends, challenges and opportunities moving forward

#### Food safety and consumer health

We are noticing a trend in which a segment of our consumer base is beginning to prioritise their purchasing choices. They are turning to quality over quantity. As a result, we continue to place emphasis on the quality of our final products, as well as that of our functional ingredients. Health and food safety informs every decision we make along the way.

Aflatoxin remains one of the major challenges facing farmers and consumers in Kenya. Aflatoxin can develop in maize and other cereals during the growth and post-harvesting process. It can similarly be found in milk if the feed fed to the cow contained aflatoxin. Human exposure occurs through breast milk, during weaning and consistently throughout an individual's lifetime either by ingestion, coming into contact or inhalation. Experts have warned that consuming food that is contaminated with aflatoxins increases the likelihood of stunted growth in children, as well as liver cancer. According to scientists, no level of exposure is considered safe.

By adhering to the highest food quality and safety standards throughout our supply chain, we ensure that our raw materials—maize, wheat, finger millet, pulses etc, either for human or animal consumption—meet the highest safety standards. We do this through standardised testing procedures and screen for aflatoxins in particular.

However, maintaining the required and appropriate food safety standards, including adequate testing, comes at a cost. Leveraging operational efficiencies and ensuring we reach our consumers as directly as possible, is therefore imperative to our ability to remain price competitive and sensitive in tough economic times.

#### Market transparency and consistent availability of quality supply

Connected to food safety and security is the availability and quality of our raw material inputs. In the past, our agricultural systems have coped with population surges and shifting dietary habits. However, given climate change impacts, water and other resource constraints, this is becoming far more difficult going forward.

Kenya is increasingly vulnerable as a net food importer. Reliance on grain imports from neighbouring countries in the case of maize, continues to increase from year to year. Uncertainty around supply, pricing and production forecasting in turn further squeezes the margins in the food processing industry, increasing temptation for businesses to cut corners for short-term gains.

The lack of transparency compared to other mature markets in terms of management and availability of supply is yet another factor that adds to the uncertainty and challenges in the sector.

Over the years, Unga has developed systems and procedures for maintaining stability and predictability of supply, as well as a diversified portfolio and agile business to minimise the impact of the market context. Portfolio diversification and value addition will therefore continue to be a key area of focus going forward.

# PERFORMANCE AND FUTURE OUTLOOK (continued)

## Climate change, resource scarcity and our own environmental footprint

An additional challenge for supplies both locally as well as globally is climate change and environmental degradation. The global governing body on climate change, the UN Inter-governmental Panel on Climate Change, reported in October 2018 that globally we only have 12 years left to curb greenhouse gas (GHG) emissions to a level in which temperature increase may not go beyond 1.5 degrees.

Above this temperature, our planetary systems are expected to be severely impacted with higher temperatures, increased erratic weather events with droughts, floods, cyclones as well as increased water scarcity, all of which is expected to hit the agricultural sector hard.

At Unga we pride ourselves in the highest operational efficiency standards, constantly working to reduce our own direct environmental footprint which also has the advantage of reducing operational costs. Our newly commissioned state-of-the-art wheat milling plant in Eldoret is an example of this as it has significantly reduced our energy consumption. All our facilities have energy saving equipment and waste management programs and we apply the principle of efficiency throughout the management of our supply chain.

Going forward, we will work to identify the most effective initiatives and programs for engaging at the agricultural production level, including initiatives for agro-forestry and tree planting.

## Adhering to highest levels of financial governance

In recent years, we have opened our newspapers to read more and more stories surrounding companies going under due to poor governance practices. At Unga, we act with integrity and transparency in our all our financial matters, including those relating to tax. This is important to us as we understand that our contribution to public finances represents a major part of our positive impact in the society in which we operate.

Our zero tolerance for fraud, bribery and corruption has also supported our impact to society. In an operating environment such as Kenya, this commitment can be a short-term disadvantage for a business. However, over the long-run, this places our company in good standing with government, tax authorities and international customers and business partners. This in turn, enhances our business development opportunities. We believe our whistle-blower programme and anti-fraud, bribery and corruption policies support our efforts well in this agenda.

Together, these trends, challenges and opportunities along with our policies, inform our decisions in the short-term and support the implementation of our corporate strategy based on the four strategic pillars - Customer Intimacy, People, Geographic Expansion and Diversification, and Supply Chain Optimisation - in the long-term.

## Our appreciation to you

Given our diverse product portfolio and broad regional scope, we successfully navigated the business through changing customer and competitor landscapes, as well as unfavourable weather events. I wish to thank you, our shareholders, for your continued commitment to Unga.

I also wish to convey my gratitude to our consumers who have continued to show their loyalty to Unga. Without you, we are merely producers. With you, we are partners in shaping the future of the industry as you challenge us to keep strong on our promise to deliver a range of quality, safe and nutritional products.

The Board as a whole wishes to thank our management and the rest of the staff who have worked tirelessly to ensure Unga remains an industry leader in spite of the challenging operating environment. Your efforts have been, and continue to be, essential to reinforcing our brand.

Finally, my special thanks to my Board member colleagues for their total support and their valuable contributions and commitment to our vision and mission.

**I. Ochola-Wilson (Mrs)**
Chairman of the Board

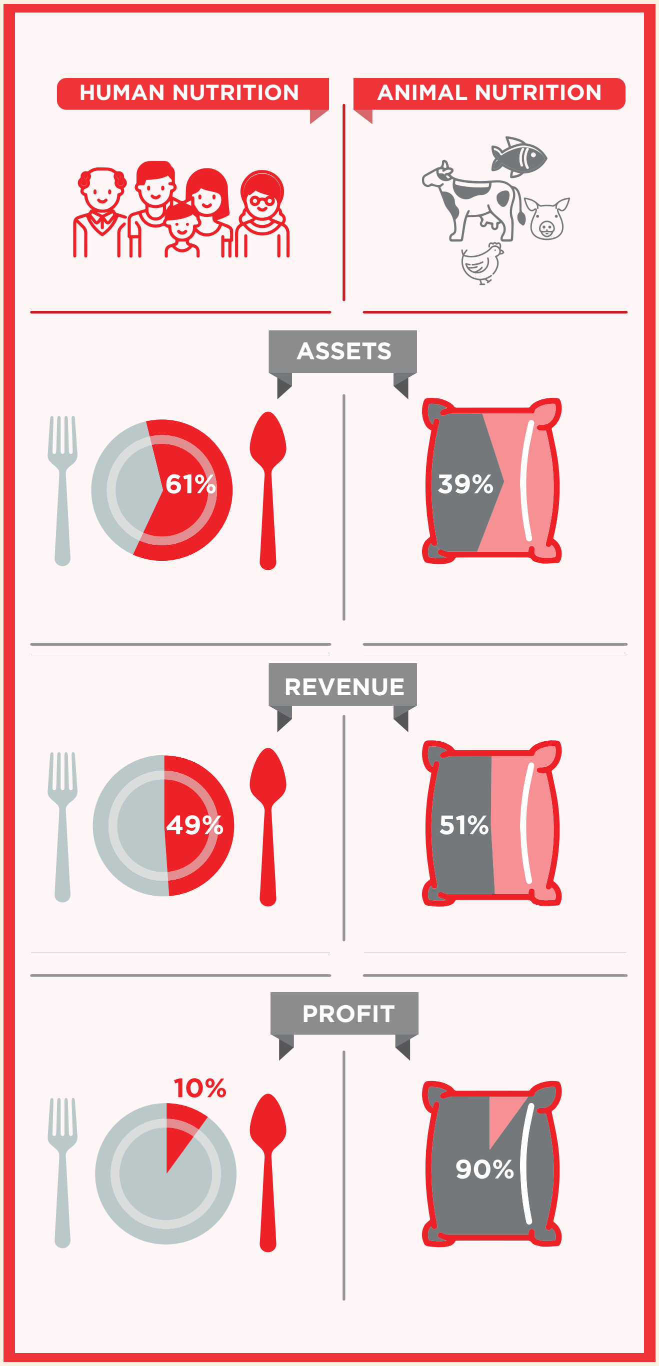
# PERFORMANCE AND FUTURE OUTLOOK

## GROUP MANAGING DIRECTOR'S REPORT

**In our business, sales, operating income and cash flows can fluctuate significantly from year to year. This year was no exception as we saw a 30% drop in our after-tax profit compared to last year's exceptional returns. Nevertheless, overall, we remain on an upward trajectory as we confront future industry challenges requiring us to produce more quality products, deliver these in a more convenient way to our consumers - using fewer resources.**

**As we continue to drive our business under our Strategic Pillars, we will continue to focus on availing quality and safe products to our consumers, with an increased focus on product diversification, operational and supply chain efficiency and offering value for money. Based on our strong commitment to governance and sustainability, Unga is well positioned to remain a leading players in the industry.**

**Nick Hutchinson**
*Group Managing Director*



# PERFORMANCE AND FUTURE OUTLOOK (continued)

## Year in review

Unga Group Plc operates within the human food and animal feed production industry. As such, its revenue and costs are significantly impacted by fluctuation in external factors such as raw material price changes, foreign exchange rates and inflation. These factors are in turn, influenced by issues such as weather, policy and political decisions.

Accordingly, revenue, operating income and cash flows, may fluctuate significantly from year to year. This year was no exception compared to last year's exceptional returns as we saw a drop in profit after tax of 30% - from Shs 783 million recorded in 2018 down to Shs 545 million in 2019. Nevertheless, overall, we remain on an upward trajectory as we confront future industry challenges requiring us to produce more quality products, using fewer resources.

This financial year's performance was segmented into two distinct parts: The first half (July-December 2018) was a strong one for the business overall with raw material prices favouring well priced finished product offerings, which in turn received sustained demand from our customers and consumers.

The second half (January-June 2019) was notably less favourable, particularly with regard to the human nutrition business. Whilst the maize category continued to perform relatively well, stiff competition and aggressive pricing in the wheat segment, combined with depressed demand, led to a loss of volumes to existing and new market entrants. In spite of this, we envision a long-term growing demand for wheat products and our new state-of-the-art 300 TPD (tons per day) milling facility in Eldoret (commissioned in December 2018) will assist in meeting this anticipated demand in a competitive and cost-efficient manner.

Our Amana° range of pulses and rice realised volume growth due to customer preference for consistent high-quality product offerings.

At the same time, our animal nutrition and health business performed strongly throughout the financial year with sales of related products remaining robust. Sustained raw material availability, particularly maize, at reasonable prices, ensured that farmers were able to purchase our Fugo animal feeds at an attractive cost, enabling them to receive a fair return on the production of meat, milk and eggs.

The commercial sale of our developing range of Fugo tilapia fish feeds continued at a steady pace. The company will be introducing a range of Fugo catfish feed during the 2020 financial year. This product range continued to help promote national food security, while supporting local businesses. And in June, we commissioned a soybean meal processing facility at our Nairobi's Dakar Road plant which is expected to further maintain the company's competitiveness in the sector.

Meanwhile, our bakery business performed as projected even as it continued to feel the ripple effects of the changes in the supermarket segment. In response, the company has undertaken further cost rationalisation and is moving forward with a focus on sales and revenue growth.

## Outlook

In the section outlining our Materiality Review we have indicated the risks and the opportunities that we see for the industry and for our business going forward. From the analysis it is clear that one of the future challenges for the food industry overall is that we must produce more food using fewer resources.

In line with our Strategic Pillars - Customer Intimacy, People, Geographic Expansion and Diversification and Supply Chain Optimisation - we will continue to focus on bringing quality safe products to our consumers. We will do this with an increased focus on product diversification and value addition, operational and supply chain efficiency and transparency for a more direct route to customers and continued premium quality and price competitiveness.

Customer Intimacy: Shorter routes to customers will ensure product availability and enable us to remain price competitive. We are therefore working in partnership with

# PERFORMANCE AND FUTURE OUTLOOK (continued)

## GROUP MANAGING DIRECTOR'S REPORT (continued)

technology companies to develop electronic monitoring for enhanced transparency in stock management. At the same time, our increased online presence in social media platforms will increase our direct engagement and information flow with customers. Overall, this will help bring purchase decisions closer to the consumer.

Geographic Expansion and Diversification: We will continue our focus on superior quality and sustainable product expansion in both the human and animal nutrition segments. Our fast-growing fish feed segment, for example, which currently caters primarily to customers engaged in cage farming on inland water bodies, is an environmentally sensitive industry as we have learned by studying examples in other markets, such as Norway and China, but one that will impact long-term commercial yields from fisheries. As a result, Unga Farm Care (EA) Limited will continue to work with farmers to encourage best practices in environmentally sustainable fish farming.

In addition, we are excited about the potential of our bakery investment moving forward. We continue to leverage its value added by seeking to develop partnerships with our modern trade and hospitality industry customers, which are again testimonies of the demand for our high-quality products by international standards. The televised "The Great Kenyan Bake-Off" challenge, sponsored by Unga Limited, will premiere in October. We expect it will shine a light on the bakery sector and encourage heightened consumer interest in wheat flour-based products.

Strategic partnerships will continue to be a critical avenue for fast and profitable product expansion. We see more partnerships with regional farmers to ensure a regular supply of soybeans, for example. This will help us further ensure lines of communication remain open between our suppliers in terms of both short-term seasonal fluctuations, as well as long term challenges to sustainable production processes.

Supply Chain Optimisation: In addition to the efficiency upgrades implemented in supply chain management, we will maintain focus on our operational efficiency to maintain price competitiveness for our high-quality products. Refurbishment of the existing wheat and maize mills are under consideration to enable us to more efficiently utilise raw material input, in particular maize.

To address the long-term challenge of availability of maize in Kenya, Unga will continue, in partnership with our industry partners and stakeholders, to support initiatives such as warehouse receipting and the establishment of a commodity exchange. We will also work towards developing direct relationships with the growers across the region in a bid to reduce financial losses in the supply chain.

People: Without our employees we are not able to deliver on our promise to the customer. Throughout the year we continued to offer our staff development programs with a focus on management competency at the supervisory level. In the coming year we will further emphasize leadership competency development along with the introduction of our new Culture Code.

### Appreciation

I would like to acknowledge the hard work and dedication of our staff. Thank you.

Our progress has been championed and supported by our Board, stakeholders, customers, business partners and regulators. We continue to count on your support and commitment.

Although we are aware of the challenges we faced during the 2019 financial year, we are proud nonetheless that our business remains strong. We are confident that our value proposition and commitment to sustainable business practices will continue to be a differentiator among the competition. Together, they will define and ensure Unga's future success.

**Nick Hutchinson**
Group Managing Director

# TOUCHING LIVES THROUGH QUALITY NUTRITION


## OUR LEADERSHIP

# OUR LEADERSHIP



## BOARD OF DIRECTORS

### STANDING (LEFT TO RIGHT)

Shilpa Haria
Jinaro Kibet
Winniefred Jumba
Alan McKittrick
Andrew Ndegwa
Patrick Obath

### SEATED (LEFT TO RIGHT)

Nicholas Hutchinson
Isabella Ochola-Wilson
Vitalis Ojode

# OUR LEADERSHIP (continued)

## BOARD OF DIRECTORS' PROFILES

**Isabella Ochola-Wilson (70)**
Non Executive Director

Mrs Isabella Ochola – Wilson holds a Bachelor of Arts degree from the University of Dar-es-Salaam and a Masters in Business Administration from the University of British Columbia, Canada. Previously, she served as General Manager Johnson & Johnson, Kenya, as Project Manager with DFID and consultant with UNDP. Aside from being Chairman of Unga Group Plc, she also served as a non-executive Director of NIC Bank Plc before the merger with CBA Bank, and continues to serve on the boards of a few other companies and institutions. Isabella joined Unga Group in June 2006.

**Nick Hutchinson (63)**
Executive Director

Appointed to the Board in May 2003, having become the Group Managing Director of Unga Holdings Limited in September 2000. He holds a BSc (Hons) Degree in Horticulture from the University of London and has many years of business management experience working for Monsanto Company in East Africa, Europe, North America and South Asia. He is immediate past Chairman of the Cereal Millers Association, Chairman of Kisima Farm Limited and an Advisory Director of Sunpower Products Limited.

**Andrew Ndegwa (51)**
Non Executive Director

Appointed to the Board in September 2001. He is a graduate a Bachelor of Arts (Hons) degree in Philosophy, Politics and Economics from University of Oxford. Andrew started his career in the banking industry, working with Citibank and then The Africa Mercantile Banking Company before moving to First Chartered Securities, an investment holding company. In addition to being an Executive Director of First Chartered Securities, he is a non-executive board member of several other companies, including NCBA Group Plc.

**Alan McKittrick (64)**
Non Executive Director

Appointed to the Board in September 1998. An engineer by profession and Group Managing Director of NAS Holdings Limited for the past 21 years. He has other directorships and considerable experience in the manufacturing and production sectors in Eastern and Southern Africa, including the livestock industry. He was the Group's Managing Director between Septmember 1998 and May 2003.

# OUR LEADERSHIP (continued)

**Vitalis Ojode (74)**
Non Executive Director

Appointed to the Board in May 2003. He is a BCom (Hons) graduate of the University of Nairobi; a Fellow of the Association of Chartered Certified Accountants (FCCA) and a member of the Institute of Certified Public Accountants (ICPAK). He worked for UDV Kenya Limited for many years and held several group directorships in Kenya and Tanzania. He was the Group's Finance Director between November 2001 and May 2006. He is currently a consultant in Finance Management.

**Jinaro Kibet (54)**
Non Executive Director

Appointed to the Board in February 2005. He holds an LLB degree from the University of Nairobi, is an Advocate of the High Court of Kenya, Commissioner of Oaths and Notary Public and a partner at the law firm of Tripleoklaw LLP. He holds other directorships including Telkom Kenya and Prime Bank Limited.

**Patrick Obath (64)**
Non Executive Director

Appointed to the Board in September 2013. He is a BSc (Hons) Mechanical Engineering graduate of the University of Nottingham and is a member of the Institute of Engineers, Kenya and the Energy Institute (UK). Mr Obath has many years of business experience working for the Shell Group of companies in Europe, Asia and Africa, finally serving as the CEO of Kenya Shell and Shell Tanzania. He has served on many boards and is Chairman of Standard Chartered Bank Kenya Limited and PZ Cussons (EA) Limited and a director of Trade Mark East Africa Limited, among others. He is the Managing Consultant in Eduardo & Associates.

**Shilpa Haria (59)**
Non Executive Director

Appointed to the Board in September 2016. She is a Fellow of the Chartered Association of Certified Accountants (FCCA) and a member of the Institute of Certified Public Accountants (ICPAK). Ms Haria has extensive experience in Audit and Business Advisory garnered from over 14 years employment with PricewaterhouseCoopers. She is Director at Resolution Group, Housing Finance Company and consultant CFO of Flame Tree Group. She chairs the Financial Evaluation Committee of Faraja Medical Fund.

**Winniefred Jumba (47)**
Company Secretary

Appointed Company Secretary in 2011. She is a holder of a BCom degree and Masters in Business Administration, both from the University of Nairobi. She is a Certified Public Secretary and a member of ICPSK, with many years' experience in Company Secretarial and Registration Services and an accredited governance auditor.

## OUR LEADERSHIP (continued)

## SENIOR MANAGEMENT

### LEFT TO RIGHT

Billy Okong'o
*Group Supply Chain Manager*

Andanje Mwairumba
*General Manager - Unga Limited*

Evans Nyambane
*Head of Internal Audit*

Nicholas Hutchinson
*Group Managing Director*

Jayne Ng'ethe
*Group Human Resources Manager*

Dickson Jawichre
*General Manager -*
*Unga Farm Care (EA) Limited*

James Nyutu
*Group Finance Director*

Leah Tuitoek
*Head of Risk and Compliance*

Anton Oosthuizen
*Group Technical Manager*

Anthony Wanyoike
*Group Business Development Manager*

# OUR LEADERSHIP (continued)

## SENIOR MANAGEMENT PROFILES

**Nicholas Hutchinson**
Group Managing Director

Joined Unga Holdings Limited in September 2000. He holds a BSc (Hons) degree in Horticulture from the University of London and has many years of business management experience working for Monsanto Company in East Africa, Europe, North America and South Asia. He is immediate past Chairman of the Cereal Millers Association, Chairman of Kisima Farm Limited and an advisory Director of Sunpower Products Limited.

**Leah Tuitoek**
Head of Risk & Compliance

Has worked for Unga Holdings Limited for over 35 years. She has vast experience in operations and supply chain management and holds a MSc degree in Food Science & Technology from Cornell University, an MBA from Moi University, and a Postgraduate Diploma from CIPs (UK). She is an Associate member of the Chartered Institute of Arbitrators; and a member of both the Chartered Institute of Purchasing & Supply (MCIPS) and the Kenya Institute of Supply Management.

**James Nyutu**
Group Finance Director

Joined Unga Holdings Limited in February 2013. He holds a B.Com degree from the University of Nairobi, an MBA from the Edinburgh Business School (UK) and a postgraduate diploma from the Institute of Management Information Systems (UK). He is a member of the Institute of Certified Public Accountants. He has wide experience in Strategy, Finance, Management and Information Systems. Started his career in the financial services industry holding various positions at Corporate Insurance and British-American Insurance Company, joining Unga from NAS Airport Services.

**Dickson Jawichre**
General Manager - Unga Farm Care (EA) Limited

Joined Unga Holdings Limited in January 2015. He graduated from Kenyatta University with a BSc (Hons) in Botany and Zoology. He has over 20 years' experience in Marketing, Sales, Business Development and General Management in East and West Africa. He started his career at GlaxoSmithKline where he held various senior positions in Sales and Marketing before joining Safaricom and later Bayer HealthCare as the Regional Manager for East Africa.

**Evans Nyambane**
Head of Internal Audit

Joined Unga Holdings Limited in January 2009 as Senior Auditor. He has over 14 years of experience in audit and risk management. He joined Unga from Earnt & Young LLP's assurance division, having previously worked at Kenindia Assurance Company. He holds a B.Com (Accounting Option) degree and MBA in Strategic Management both from the University of Nairobi. He is a Certified Public Accountant.

# OUR LEADERSHIP (continued)

**Anthony Wanyoike**
Group Business Development Manager

Joined Unga in 2018. Previously worked as General Manager at Mavuno Fertilizers Limited, Head of Sales at Kenchic Limited and General Sales Manager at Mount Kenya Bottlers. He holds a BEd Economics, Moi University, MSc Entrepreneurship, Jomo Kenyatta University of Science and Technology.

**Jayne Ng'ethe**
Group Human Resources Manager

Joined Unga Holdings Limited in February 2019. She holds a Bachelor of Education (Hons) degree from Kenyatta University and a Masters in Business Administration. She has a Certificate in Strategic Human Resources Management from Cornell University (USA) and a Practitioner Diploma in Executive Coaching from Academy of Executive Coaching (UK). She is an accomplished HR professional with vast HR generalist experience in the Printing and Publishing, FMCG and Manufacturing industries at senior management level.

**Anton Oosthuizen**
Group Technical Manager

Joined Unga Holdings Limited in July 2019. He spent 20 years with Nestle in different roles ranging from Quality, Supply Chain, Plant Management, TPM and Continuous Improvement in both South Africa and New Zealand. He has a Programme in Engineering Management qualification from the University of Pretoria, South Africa and holds a Certificate in Project Management, Auckland New Zealand.

**Billy Okong'o**
Group Supply Chain Manager

Has worked for Unga since 1995, joining Unga Feeds as a Management Trainee. He has risen through the ranks as a Production Supervisor, Animal Nutritionist, Plant Manager (Nakuru and Eldoret) and Sales Operations Manager. Has worked as Manager at Cooper K-Brands Limited. He holds an M.Sc. in Animal Nutrition (University of Nairobi) and a Certificate in Flour Milling (National Association of British and Irish Millers - NABIM).

**Andanje Mwairumba**
General Manager - Unga Limited

Joined Unga Holdings Limited in April 2015. He worked at Research International E.A. as a Research Executive and later at British American Tobacco where he handled marketing information and trade research. He spent over 12 years with Tetra Pak in different roles including General Manager, Commercial Director and Key Account Director. He holds a Bachelor of Education from Moi University, MBA and MSc (Marketing) from Edinburgh Business School, Heriot-Watt University (Scotland).

# TOUCHING LIVES THROUGH QUALITY NUTRITION


**CORPORATE GOVERNANCE**

# CORPORATE GOVERNANCE STATEMENT

Unga Group Plc (Unga Group) is committed to implementing and adhering to good corporate governance and best practice.

Unga Group continues to comply with the provisions of the Capital Markets Authority (CMA) Code of Corporate Governance practices for Issuers of Securities to the Public 2015 (the Code). In addition, Unga Group abides by the tenets of the Constitution of Kenya and all other laws as a law-abiding corporate citizen.

We continuously assesses our governance operating model to ensure that robust internal governing bodies and proper systems/processes are in place to support the Board and managment to drive change, set strategic direction and formulate high-level goals and policies, centred around creating equal opportunities for economic advancement that are accessible to all levels of society.

- Sets corporate objectives, including generating economic returns to shareholders;
- Runs the day-to-day operations of the business;
- Considers the interests of recognized stakeholders;
- Aligns corporate activities and behaviors with the expectation that the Company will operate in a safe and sound manner, and in compliance with applicable laws and regulations.

The Board of Directors of Unga Group is responsible for the governance of the Group. Members of the Board are committed to fulfilling their fiduciary responsibilities and have instituted various principles necessary to ensure that good governance is practiced with respect to dealings with the Company's shareholders, customers and other relevant stakeholders in line with the spirit of the Code of Corporate Governance for listed Companies.

## Governance Principles

Among the principles that the Board subscribes to in upholding the Group's Corporate Governance practices include but are not limited to:-

1. Discipline: the commitment by the Group's Senior Management to adhere to behavior that is universally recognised and accepted to be correct and prudent.
2. Transparency and Disclosure: the ease with which an outsider is able to access information relating to the Group and to make meaningful analysis of the Group's actions, its economic details and the non-financial aspects pertinent to the business.
3. Independence: the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareholder.
4. Accountability: individuals or groups in the Group, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions.
5. Adherence to laws and regulations: with regard to management, this pertains to compliance with applicable laws and regulations and implementing standards of relevant best practice. Behaviour must allow for corrective action and for penalising non-adherence or mismanagement. Responsible management would, when necessary, put in place what it would take to set the Group on the right path. While the Board is accountable to the Group's shareholders, it must act responsively to and with responsibility towards all stakeholders of the Group.
6. Fairness: the systems that exist within the Company must be impartial in taking into account all those that have an interest in the Company and its future. The rights of various groups have to be acknowledged and respected, and the Company must continually focus on stakeholder value, free of favouritism.
7. Social responsibility: a well-managed Company will be aware of, and respond to, social issues while placing high priority on ethical standards.

## Regulatory Compliance

A sound regulatory system is crucial for supporting the growth of our industry. It provides an enabling environment for competition between businesses and enforces fair practices, driving equal opportunity and the inclusive participation of all segments of society in the economic and social spheres. We ensure that we remain compliant with regulatory requirements by assessing our processes against all applicable laws and regulations.

# CORPORATE GOVERNANCE STATEMENT (continued)

## CORPORATE GOVERNANCE FRAMEWORK

**BOARD OF DIRECTORS**

**RESPONSIBILITIES**
- **Hold the Group's long term vision**
- **Set broad goals, plans and organisational policies**
- **Offer guidance on strategic decisions and actions of management**
- **Resource allocation**

**AUDIT & RISK COMMITTEE**

Principal mandate
- Integrity of the Group's financial statements
- Compliance with legal and regulatory requirements
- Effectiveness of internal controls
- Review of business operations policies
- Corporate governance
- Risk management
- Perfomance of the internal audit function and the independent auditors
- Legal and compliance audit

**NOMINATIONS & REMUNERATION COMMITTEE**

Principal mandate
- Review Board size and structure
- Board evaluation
- Governance audit
- Board development
- Succession planning of the Board and the Group Managing Director
- Review of Board appointments
- Review of Directors' remuneration policy and compensation scale

**INVESTMENT & OPERATIONS COMMITTEE**

Principal mandate
- Review of the projects and investments
- Review of business operational matters
- Review of major capital projects
- Financial planning
- ICT governance framework
- Occupational health and safety

**HUMAN RESOURCE COMMITTEE**

Principal mandate
- Human Resources management strategy
- Human resource policies
- Performance management
- Staff remuneration and benefits
- Staff developement
- Succession planning

**GROUP MANAGING DIRECTOR:** The Board delegates management of the Group and the implementation of approved strategies to the Group Managing Director

**SENIOR MANAGEMENT:** Procurement Committe, Risk Management Committee and Projects Steering Committee

### The Board of Directors

The primary role of the Board remains provision of effective leadership to the company towards:

- sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the company,
- having the best team in place to execute that strategy through effective succession planning,
- setting up appropriate governance structures for the management of the business operations,
- monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business and
- ensuring ethical behavior and compliance with the laws and regulations

The Board is solely responsible for its agenda. However, it is the responsibility of the Chairman and the Company Secretary, working closely with the Group Managing Director, to come up with the annual Board work plan and agenda for the Board meetings.

### Separation of the role of Chairman and the Group Managing Director

The separation of the functions of the Chairman (a Non-Executive Director) and the Group Managing Director supports and ensures the independence of the board and management. The balance of power, increased accountability, clear definition of responsibilities and improved decision-making are attained through a clear distinction between the non-executive and executive roles.

The Chairman's responsibilities include the operation, leadership and governance of the board, acting as the primary channel of communication and point of contact between the Board and the Group Managing Director and to provide guidance and mentoring to the Group Managing Director.

The Group Managing Director's roles and responsibilities remains the day-to-day management of the company's business and overseeing the implementation of strategy and policies approved by the board and serving as the official spokesperson for the Company.

# CORPORATE GOVERNANCE STATEMENT (continued)

## Internal Regulations

Besides complying with the Code and the laws, the Group has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in various policies and in the Code of Business Conduct to which every employee, supplier and the Board makes a commitment to comply with.

**Board Charter**

The Board Charter outlines the specific roles and responsibilities of the Board which are separate from those of management. The Charter covers areas relating to Board structure, functions, processes, effectiveness and internal controls. The Charter has also embedded policies on Related Party Transactions.

The Charter and Committee Charters have been published on the Company's website.

## Code of Ethics and Conduct

The Company pursues ethical decision making and leadership to promote corporate social responsibility, fair business practices, sustainability and the triple bottom line that focuses on the society, the environment and profitability.

The Board has implemented a Code of Ethics and Conduct which binds Directors and Employees and is subscribed to by all members of the Company. Initiatives to ensure its application include training, monitoring, mechanisms for whistle blowing, taking disciplinary action, etc. The Code has been integrated into the Company's operations through the development of various policies and reporting mechanisms.

**Board Policies**

The Board has established policy and procedure documents to guide the Directors and management in the implementation of their roles and responsibilities. A brief summary of the governance documents and their key provisions are listed below:

### Conflict of Interest policy

The Board has implemented a policy and process to manage conflict of interest in accordance with the provisions of the Companies Act 2015 and the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public. The policy is enumerated in the Board Charter, Code of Ethics and Directors letters of appointment. Directors are obligated to fully disclose to the Board any real or potential conflict of interest which come to their attention, whether direct or indirect.

All business transactions with all parties, directors or their related parties are carried out at arm's length. At any meeting of the Board, members are expected to make a declaration of any interest that they may have in the matters being discussed.

### Board Remuneration policy

The policy sets out guidelines and criteria for the Board's compensation. The principles that underpin the Company's approach to remuneration for Executive Directors are as follows:-

- Simple, transparent and fair approach
- A reasonable proportion is variable and linked to the delivery of Unga Group's strategy.
- Outcomes are intended to reflect performance

The focus is on long term sustainable performance.

### Whistle Blowing policy

The Board has established a whistle blowing policy that outlines mechanisms that facilitate anonymous reporting of anti-ethical behavior by all stakeholders. The policy is designed to offer protection those employees of Unga Group who disclose such concerns provided the disclosure is made:

- In good faith

### Operational policies

There are broad operation policies that guide Management in execution of the Group's operations in an efficient and socially responsible manner. The policies cover various operational functions including:

- Procurement
- Human Resource

# CORPORATE GOVERNANCE STATEMENT (continued)

| | |
|---|---|
| Whistle Blowing policy (continued)<br>• In the reasonable belief of the individual making the disclosure that it tends to show malpractice or impropriety and if they make the disclosure to an appropriate person. The policy makes it clear "any form of reprisal against anyone who in good faith has raised a concern is forbidden and will itself be regarded as a serious offence to be dealt with under the Disciplinary Procedure."<br><br>The ethics hotline is managed by an independent, accredited and external institution. Whistle blowing statistics are reported to the Board Audit and Risk Committee. | Operational policies (continued)<br>• ICT<br>• Environment, Safety and Health<br>• Risk Management<br>• Financial Management<br>• Corporate affairs<br>• Sustainability |
| Insider Trading policy<br>This policy is used to institute structures to prevent insider dealings by the directors and management. Through this policy, the Company endeavors to preserve the confidentiality of un-published price sensitive information and to prevent misuse of such information. The Group is committed to transparency and fairness in dealing with all stakeholders and in ensuring adherence to all laws and regulations.<br><br>The policy ensures that the Group continually and appropriately discloses all insider dealings that come to its attention. The Board is glad to report that during the year 2018-2019, there were no known or identified instances of insider trading. The policy has been published on the Group's website. | Environmental, Safety and Health and Social Policies<br>The Group policies and procedures create a framework in which the Group and its suppliers commit to undertaking their activities in a manner that is considerate to the environment. The Group has taken measures to assess its impact on environmental and societal interests and its reputation in the long run.<br><br>Sustainability is integrated in various aspects of the business such as innovation as well as taking care of the immediate environment. The Group has embraced PaTaMu philosophy which is a continual improvement process.<br><br>There is also a Corporate Social Responsibility agenda which ensures that the Group operates its business in a responsible manner for the benefit of customers, staff, suppliers and the wider community. The CRS activities are disclosed every year in this report. |
| Anti-bribery policy<br>We have an anti-bribery policy that prohibits employees and agents from giving or receiving bribes (directly or indirectly) and any attempts to influence or induce favours by way of bribes. They are encouraged to report the same via the Ethics hotline. | Anti-Fraud and Corruption policies<br>We consistently review our compliance with regulatory obligations, particularly those surrounding fraud, corruption and Anti-Money Laundering (AML) legislation. |

**Risk Management**
Unga Group has undertaken key initiatives to enhance internal systems to mitigate risks such as fraud and to improve process efficiency and effectiveness. This includes strengthening the credibility of relevant products and services by pursuing professional certification.

Ethical Behaviour
We recognise that corruption drives inequality by preventing fair access to economic power and basic social needs and in extreme cases, results in violation of human rights. We take steps to cultivate awareness and put anti-corruption monitoring and corrective measures in place and drive behavioural change in society through collective action initiatives.

# CORPORATE GOVERNANCE STATEMENT (continued)

## Shareholder relations

We believe that good corporate governance is critical, not only at the corporate level but also at the national level. We require our partners to adhere to the highest level of integrity and business ethics in their dealings with us or with others.

In the financial year under review, we continued to achieve high levels of corporate governance by focusing on the following areas:

- Continuing to implement our strategy for the long-term prosperity of the business;
- Timely and relevant disclosures and financial reporting to our shareholders and other stakeholders for a clear understanding of our business operations and performance;
- Ensuring execution of strong audit procedures and audit independence
- Strong internationally recognized accounting principles;
- Focus on clearly defined Board and management duties and responsibilities;
- Focusing on compliance with relevant laws and upholding the highest levels of integrity in the
- organisation's culture and practices

The Group also maintained an active website during the year. The website provides extensive information about the Board of Directors, its mandate, the board committees and their mandates. The Board of Directors encourages shareholder participation at the Company's annual shareholder meetings.

Other means of communication with shareholders include the Company's annual report, half yearly reports, news releases, website, presentations at investor and industry conferences and other meetings.

The Company has a well-established culture on shareholder management which is supported by the Company Secretary's office and the Shares Registrar- Custody and Registrar Services Limited.

### Directors' Shareholding

Directors can purchase or sell shares of the Company in the open market. None of the Directors as at the end of financial year under review held shares in their individual capacity of more than 1% of the Company's total equity.

There were no material contracts involving directors' interests during the year.

### Shareholding Profiles

The ten largest shareholdings as at 30 June 2019

| Name | Total Shares | % |
|---|---:|---:|
| Victus Limited | 38,557,190 | 50.93% |
| CSFS Nominees A/C | 13,657,028 | 18.04% |
| Rakesh Prakash Gadani | 3,523,980 | 4.65% |
| Bid Portfolio Management Ltd | 2,620,700 | 3.46% |
| Sayani Investments Ltd | 1,743,400 | 2.30% |
| Broadway Bakery Limited | 1,149,700 | 1.52% |
| Kestrel Capital Nominees Limited A/C 009 | 656,200 | 0.87% |
| Investments & Mortgages Nominees Ltd A/C 028950 | 482,920 | 0.64% |
| Dip Shah | 328,200 | 0.43% |
| Jitendra Vijaylal Dayalal Popat | 273,000 | 0.36% |
| **TOTAL** | **62,992,318** | **83.20%** |

# CORPORATE GOVERNANCE STATEMENT (continued)

**Distribution of shareholders**

(a) By number of shares range

| VOLUME / RANGES | SHARES HELD | % | SHAREHOLDERS |
|---|---|---|---|
| 1 - 500 | 564,529 | 0.75% | 3,360 |
| 501 - 5000 | 3,941,631 | 5.21% | 2,237 |
| 5001 - 10000 | 2,331,447 | 3.08% | 337 |
| 10001 - 100000 | 4,591,972 | 6.07% | 210 |
| 100001 - 1000000 | 3,027,296 | 4.00% | 13 |
| >1000000 | 61,251,998 | 80.90% | 6 |
| **Totals** | **75,708,873** | **100.00%** | **6,163** |

(b) By category of shareholders

| DOMICILE | SHARES | SHAREHOLDERS | % |
|---|---|---|---|
| Foreign companies | 160,160 | 6 | 0.21% |
| Foreign individuals | 1,406,051 | 233 | 1.86% |
| Local companies | 59,423,767 | 152 | 78.49% |
| Local individuals | 14,718,895 | 5,772 | 19.44% |
| **Total** | **75,708,873** | **6,163** | **100.00%** |

**Board Induction and Training**
Board members undergo regular training and education to enable them to fulfill their responsibilities.

All Board members receive an induction upon joining. This provides an overview of the Company, new developments in the environment in which the Company operates, accounting and financial reporting developments, as well as any regulatory changes. As part of the induction training, detailed presentations by Management are factored in, so that the Directors gain a good sense of the Company's operations and central functions. The Board receives regular briefings on legal and regulatory developments at the Board meetings, with particular emphasis on regulations that directly impact the operations of the Company.

**Board Evaluation**
The Board undertook a self-evaluation to assess its performance during the prior financial year with the assistance of an independent consultant. The evaluation also covered the performance of the Group Managing Director and the Company Secretary. The outcome of the evaluation is used to improve the Board's performance in subsequent years. The Board is in the process of implementing recommendations from the evaluation exercise.

# CORPORATE GOVERNANCE STATEMENT (continued)

**Who governs us?**

## Board Size, Composition and Appointments

The constitution of the Company's Board is stipulated by the Company's Articles of Association. It comprises of ten Directors, of whom nine are Non-Executive Directors and one is an Executive Director. The Board of Directors is currently composed of eight directors made up of one executive director, two independent directors and five non-executive directors.

All directors, save for the executive director are subject to rotation.

The Directors who served during the year were as follows:-

| Name | |
|---|---|
| Isabella Ochola-Wilson | Non-executive Chairman |
| Nicholas Hutchinson | Group Managing Director |
| Andrew Ndegwa | Non-executive Director |
| Alan McKittrick | Non-executive |
| Vitalis Ojode | Non-executive |
| Jinaro Kibet | Non-executive |
| Patrick Obath | Independent non-executive |
| Shilpa Haria | Independent non-executive |
| Patrick Mugambi | Alternate director to Andrew Ndegwa |
| James Gutsch | Alternate director to Nick Hutchinson |
| Company Secretary | Winniefred Jumba |

**Company Secretary**

The Company Secretary is a member in good standing with the Institute of Certified Secretaries (ICS). The Company Secretary provides a central source of guidance and advice to the Board on matters of ethics, statutory compliance, compliance with the regulators and good governance.

## Role of the Company Secretary

- Providing a central source of guidance and advice to the Board and the Company, on matters of statutory and regulatory compliance and good governance;
- Providing the Board and the Directors individually with guidance on how their responsibilities should be discharged in the best interests of the Company;
- Facilitating the induction training of new Directors and assisting with the Directors' professional development as required. This includes identifying and facilitating continuous Board education;
- In consultation with the Group Manging Director and the Chairman, ensuring effective flow of information within the Board and its committees and between senior management and Non-Executive Directors. This includes timely compilation and distribution of Board papers and minutes, as well as communication of resolutions from Board meetings;
- Guiding the company in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision making by shareholders, customers and other stakeholders; and
- Keeping formal records of Board discussions and following-up on the timely execution of agreed actions.

# CORPORATE GOVERNANCE STATEMENT (continued)

### BOARD COMMITTEE MEMBERSHIP AND MEETING ATTENDANCE

The composition of the board and attendance at board meetings and board committee meetings is set out in the table below for the year ended 30 June 2019. Due to the Seaboard Corporation takeover Offer, the Board constituted a Special Board which excluded directors conflicted by the Seaboard transaction and had recused themselves from the Board proceedings during the offer period.

| | | BOARD | BOARD COMMITTEES | | | | | | | | SPECIAL BOARD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Audit and Risk Committee | | Nominations and Remuneration Committee | | Investment and Operations Committee | | Human Resources Committee | | | |
| Name | No. of Meetings | 5 | | 5 | | 1 | | 4 | | 4 | | 1 |
| Isabella Ochola-Wilson | Non-Executive Chairman | 5 | | | M | 1 | A | 2 | M | 4 | M | 1 |
| Nicholas Hutchinson | Group Managing Director | 5 | A | 5 | | | M | 4 | M | 4 | M | 1 |
| Andrew Ndegwa | Non-Executive Director | 3 | M | 4 | M | 1 | M | 3 | | | | |
| P Mugambi – Alternate to Andrew Ndegwa | Alternate Director | 1 | A | 1 | | | M | 1 | | | | |
| Alan McKittrick | Non-Executive | 5 | | | | | M | 3 | C | 4 | | |
| Vitalis Ojode | Non-Executive | 5 | M | 5 | | | | | | | M | 1 |
| Jinaro Kibet | Non-Executive | 3 | M | 4 | M | 1 | | | | | | |
| Patrick Obath | Independent Non-Executive | 4 | | | C | 1 | C | 4 | | | M | 1 |
| Shilpa Haria | Independent Non-Executive | 5 | C | 5 | | | | | | | M | 1 |
| Winniefred Jumba | Company Secretary | 5 | | | A | 1 | A | 4 | A | 4 | A | 1 |

- M Indicates board committee membership
- C Indicates board committee chairman
- A Indicates board committee attendance
- The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated

# CORPORATE GOVERNANCE STATEMENTS (continued)

### KEY DELIBERATIONS AND DECISIONS BY THE BOARD

| BOARD COMMITTEE | COMMITTEE MEMBERS | KEY HIGHLIGHTS |
|---|---|---|
| **Special Board** | • Mrs. Isabella Ochola-Wilson (Chairman)<br>• Ms. Shilpa Haria<br>• Mr. Nick Hutchinson<br>• Mr. Vitalis Ojode<br>• Mr. Patrick Obath | Key highlights of the Committee during the year:<br>A special Board was constituted for the Seaboard Offer period. It did not include directors who had recused themselves on account of the transaction.<br>The Committee facilitated the Board's mandate with regards to the CMA obligations placed upon the Board in relation to the transaction |
| **Audit and Risk Committee** | • Ms. Shilpa Haria (Chairman)<br>• Mr. Jinaro Kibet<br>• Mr. Andrew Ndegwa<br>• Mr. Vitalis Ojode | Key highlights of the Committee during the year:<br>• Review of Group's audited and unaudited financial statements<br>• Profit warning<br>• Enterprise Risk Management Policy<br>• Risk Appetite Statements & Tolerances<br>• Anti-Bribery and Anti-Corruption policies<br>• Review of the Legal and Compliance Audit Report |
| **Nominations and Remuneration Committee** | • Mr. Patrick Obath (Chairman)<br>• Mr. Jinaro Kibet<br>• Mr. Andrew Ndegwa<br>• Mrs. Isabella Ochola-Wilson | During the course of the year, the Committee undertook:<br>• Management of the Board succession process<br>• Review of the Board Evaluation results<br>• Review of the Governance Audit Report<br>• Review of Directors' compensation |
| **Investment and Operations Committee** | • Mr. Patrick Obath (Chairman)<br>• Mr. Andrew Ndegwa<br>• Mr. Nick Hutchinson<br>• Mr. Alan McKittrick | During the course of the year, the Committee oversaw the following initiatives<br>• Commissioning of Eldoret Wheat mill expansion<br>• Oversight of sale of Unga Millers (U) Limited's assets<br>• Implementation of SAP ERP enhancements<br>• Supply chain optimisation<br>• Capital projects<br>• Financial planning |
| **Human Resources Committee** | • Mr. Alan McKittrick (Chairman)<br>• Mrs. Isabella Ochola-Wilson<br>• Mr. Nick Hutchinson | During the course of the year, Committee reviewed the following:-<br>• Salary adjustments and variable pay payout<br>• Code of Ethics and Business Conduct<br>The Committee also received, reviewed and approved the following management proposals<br>• Staff rationalisation exercise in Ennsvalley Bakery Limited<br>• Revised structure of the Human Resource Department<br>• Review of labour productivity metrices across the group<br>• Roll out of the culture transformation program<br>• Staff mapping and succession planning<br>• Reengineering security services through deployment of technology |

# CORPORATE GOVERNANCE STATEMENT (continued)

## GOVERNANCE, LEGAL AND COMPLIANCE AUDIT

The Governance Audit for the year ended 30 June 2019 was undertaken by a competent professional, accredited by the Institute of Certified Secretaries. This was to ensure Unga Group upholds its corporate governance principles to check the level of compliance with governance requirements and best practice.

The Board commissioned a legal and compliance audit in 2018 to establish the level of adherence by the Group to applicable laws, regulations and standards. In the legal and compliance auditor's opinion, the Company and its subsidiaries, in material respects , broadly comply with the requirements of the internal and external legal framework. Implementation of recommendations from the 2018 legal and compliance audit are underway. The next audit is due in 2020.

The Governance Auditor's opinion for the 2019 audit is published on page 82.

## ROLE OF THE CHAIRMAN & GROUP MANAGING DIRECTOR

Roles of the Chairman and the Group Managing Director are separated. Key responsibilities are as indicated below:-

| Chairman | Group Managing Director |
|---|---|
| • Providing leadership to the Board;<br>• Chairing Board Meetings, which involves determining the agenda and ensuring that the Directors receive accurate, timely and clear information, and ensuring that the Board has an effective decision making framework<br>• Chairing meetings of members, including the annual general meeting;<br>• Keeping track of the contribution of individual Directors and ensuring visible participation;<br>• Monitoring the activities of Board Committees;<br>• Engaging the Board in assessing and improving its performance and that of the Group Managing Director.<br>• In consultation with the Group Managing Director, approve or delegate authority for the approval of all material releases to be submitted to the Capital Markets Authority and other investor releases;<br>• Acting as the primary channel of communication and point of contact between the Board and the Group Managing Director and to provide guidance and mentoring to the Group Managing Director. | • Developing and recommending to the Board annual business plans and budgets that support the Company's long-term strategy:<br>• Maintaining a positive and ethical work climate that is conducive to attracting, retaining and motivating a diverse group of top-quality employees at all levels;<br>• Ensuring that the day-to-day business affairs of the Company are appropriately managed;<br>• Consistently striving to achieve the Company's financial and operating goals and objectives;<br>• Ensuring that the Comapny has an effective executive management team below the level of the Group Managing Director and has an active plan for its development and succession;<br>• Ensuring, in co-operation with the Board, that there is an effective succession plan in place for the Group Managing Director position;<br>• Formulating and overseeing the implementation of fundamental corporate policies;<br>• Serving as the official spokesperson for the Company and overseeing the induction of new board members in consultation with the Company Secretary. |

### Going Concern

The Board confirms the financial statements are prepared on a going concern basis and is satisfied that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, the directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital utilisation and other resources.

# DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 30 June 2019, which disclose the state of affairs of Unga Group Plc (the "Company") and its subsidiaries (together, the "Group").

## PRINCIPAL ACTIVITIES

The principal activities of the Group continue to be the manufacturing of human nutrition products, animal nutrition products and the distribution of animal health products.

## BUSINESS REVIEW

The Group's sales revenue declined by 10% over prior year. Profit for the year decreased by 30%. Volumes and margins were under pressure throughout the year due to increased competition. This mainly affected the human nutrition business.

Maize grain was in short supply and highly priced in the second half of the year. To a large extent, increased raw material prices were absorbed by the animal nutrition business, which constrained margins whilst supporting volume growth.

The commissioning of a new wheat mill in Eldoret in December 2018 increased capacity and further improved production efficiencies.

A new soybean meal plant was commissioned at the Nairobi feed plant at the end of the 2018-19 financial year; this is expected to provide raw material price improvements going forward.

The bakery business recorded a significant reduction in losses despite a 16% drop in revenues. The reduction in revenues was mainly attributable to credit risk challenges in the retail sector

**Summary financial performance**

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Revenue | 17,895,670 | 19,982,070 |
| Gross profit | 2,532,189 | 3,311,063 |
| Gross profit margin | 14% | 17% |
| Operating profit | 718,960 | 1,267,833 |
| Profit for the year | 544,814 | 783,203 |
| **Total assets** | **10,646,066** | **9,932,664** |

## RESULTS AND DIVIDEND

The profit attributable to equity holders of Shs 342,147,000 (2018: Shs 509,082,000) has been added to retained earnings. The directors recommend payment of a first and final dividend of Shs 0.50 (2018: Shs 1.00) per share amounting to Shs 37,853,493 (2018: Shs 75,706,986) in respect of the financial year. The dividend is subject to approval by the shareholders at the next Annual General Meeting.

# DIRECTORS' REPORT (continued)

The directors who served during the year and to the date of this report are set out on page 4.

**DISCLOSURES TO AUDITORS**

The directors confirm that with respect to each director at the time of approval of this report:

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

(b) each director had taken all steps that ought to have been 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

**TERMS OF APPOINTMENT OF AUDITORS**

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

The Board Audit and Risk Committee (BARC) monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and fees.

**APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 26 September 2019.

By order of the Board

WNJumba

**Winniefred N Jumba**
SECRETARY

# DIRECTORS REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2019

**Dear Shareholder**

I am pleased to present to you, on behalf of the Board, the Directors' Remuneration Report for the year ended 30 June 2019.

## 1. INFORMATION NOT SUBJECT TO AUDIT

### 1.1 Introduction

The regulatory landscape in Kenya has witnessed a number of changes that have had an impact on the remuneration of Directors and the associated reporting.

In March 2016, the Capital Markets Authority ("CMA") issued the Capital Markets Code of Corporate Governance for Issuers of Securities ("the CMA Code") which became operational 12 months after its gazettement. The CMA Code outlines various compliance requirements with respect to the remuneration of Directors. The Companies Act, 2015 which was enacted in September 2015 and became operational in June 2016, requires the Company to table a Directors' Remuneration Report to its shareholders as part of its audited financial statements.

The Board Nominations and Remuneration Committee ("BNRC") has prepared this report in accordance with the requirements of the Companies Act, 2015 ("the Act"), the regulations and the CMA Code.

The Board of Directors implements the Remuneration Policy through the Board Nominations and Remuneration Committee whose primary mandate is (a) to ensure that the Board comprises of individuals with the requisite skills, knowledge and experience, (b) review the performance of the Board, (c) ensure appropriate succession planning, and (d) to review the remuneration of directors. The BNRC is also charged with the review of the remuneration policy.

The members of the Nominations and Remuneration Committee during the year were Mr Patrick Obath (Chairman), Mrs Isabella Ochola-Wilson, Mr Jinaro Kibet and Mr Andrew Ndegwa. All members are Non Executive Directors and Mr Patrick Obath was determined by the Board to be independent throughout the year.

The Committee was inactive for much of the period under review due to the takeover offer transaction by Seaboard Corporation ("Seaboard") acting in concert with Victus Limited (Victus) that sought to acquire all the shares not already held by Seaboard and Victus ("the Transaction"). The transaction had a bearing on matters that were mandated to the Committee and it was determined to await the outcome of the transaction.

In light of the foregoing, the Schedule of attendance of meetings held during the year was as follows: -

| Member | No. of Meetings Attended |
|---|---|
| Mr Patrick Obath | 1/1 |
| Mrs Isabella Ochola-Wilson | 1/1 |
| Mr Jinaro Kibet | 1/1 |
| Mr Andrew Ndegwa | 1/1 |

The Board Charter and the Committee's terms of reference are available on the Company's website. The Committee takes into account the need to recruit and retain value adding Directors in a challenging market environment.

**Directors' Remuneration Report**

### 1.2 Report Preparation

The Directors' Remuneration Report has been prepared to enlighten the shareholders on the remuneration payable to both the Executive and Non-Executive Directors.

**Remuneration for Non-Executive Directors**

The Company's Non-Executive Directors' (NEDs) are compensated in the form of fees but are not entitled to any pension, bonus or long-term incentives such as performance share plans.

The package covers a Director's role in the Board, any Board Committee(s) and any other activities as identified in the approved compensation schedule and in-line with the Non-Executive Directors' policy. Elements of the compensation schedule include the following:

a) Annual retainer fee for the Chairman and other Non-Executive Directors;
b) Sitting allowances for Board and Board Committee meetings; and
c) Expenses incurred with respect to travel, accommodation, pre-approved consultancy fees or as a result of carrying out other duties as a Director, are reimbursed at cost.

# DIRECTORS REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2019 (continued)

The Company's policy is to remunerate its Non-Executive Directors at the desired position, so as to pay at least at the 75th percentile of the market. This ensures that the Company is competitive in sourcing and retaining its Directors.

**Remuneration for Executive Directors**

## 1.3 Link to Strategy

It is the view of the Committee and the Board that our reward arrangements best support our business effectiveness by only delivering above target pay-outs when this is justified through Company performance and the current policy supports the implementation of the Company's short term and long-term objectives.

The Board of Directors is currently implementing the 2019 – 2023 Strategic Plan aimed at transforming the Group to align with its vision of 'Nutrition for Life.'

The major objective of the Remuneration Policy is to ensure a clear link between the Executive compensation and an individual's level of performance and their reward. The Group's aim is to achieve an integrated approach to reward, linking Company strategy in the form of the achievement of corporate objectives and individual performance to salary increases and bonus awards. These, along with other factors such as market positioning and the overall reward budget, go into the annual salary and bonus review process for all employees including the executive team.

We have summarised in the table below, the key elements of the remuneration packages of the Executive team as a compensation for their role as key management.

| Remuneration component | | | Time frame | Purpose |
|---|---|---|---|---|
| Total remuneration package = Base pay+Benefits+Incentives | Total Guaranteed Package = Base pay + Benefits | Base Pay | monthly | • Attraction<br>• Internal and external equity<br>• Service<br>•Individual performance |
| | | Benefits | monthly | • Employer of choice<br>• Alignment with wellness strategy |
| | Allowances | Event related allowances | monthly | Compliance with legislative, negotiated and contractual commitments |
| | Short term incentives | Short Term Incentive Plan (Inc. of Bonus) | annual | Line of sight with financial targets.<br>Employment equity |
| | Long term incentives | Medium Term Incentive | 3 yrs | Attract and retain<br>Reward individual Performance |
| | | Long Term | 2-6 yrs | Align with Business life cycle |

# DIRECTORS REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2019 (continued)

## 1.4 Commentary on Significant Changes to Directors Remuneration

During the year, the Committee's work was centred on overseeing the implementation of the policy.

The current compensation structure for Non-Executive Directors was approved by the Board in May 2019 in line with the 3-year review cycle as per the remuneration policy. Details of the fees for the Non-Executive Directors and remuneration of the Executive Director paid in the financial year under review are set out on the financial statements' part of the annual report.

The Board is satisfied that the current remuneration policy continues to be appropriate for the Company and will support the implementation of the Group's short term and long-term objectives.

The Board will undertake a review on the adequacy of the policy each year to ensure that it supports the Company's Strategy.

## 1.5 Statement of Voting on the Directors Remuneration Report at the previous Annual General Meeting

During the Annual General Meeting held on 6th December 2018, the shareholders in attendance approved the Directors' Remuneration Policy and Directors' Remuneration Report for the year ended 30 June 2018.

The results on voting were as follows:

| Agenda No. | Resolution | For | Against | Withheld | Spoilt | Total |
|---|---|---|---|---|---|---|
| | | (as a percentage of total votes cast at the meeting) | | | | |
| 7 (a) | Approval of the Directors' Remuneration Policy. | 83.017% | 16.982% | 0.001% | 0.000% | 100.000% |
| 7 (b) | Approval of the Directors' Remuneration Report. | 83.015% | 16.982% | 0.003% | 0.000% | 100.000% |

At the Annual General Meeting to be held on 5 December 2019, the shareholders will also consider the Directors' Remuneration Report for the year ended 30 June 2019.

## 1.6 The Current Directors' Remuneration Policy and Strategy

### Current Policy

The current directors' remuneration policy was tabled and approved by the shareholders at the Company's Annual General Meeting held on 6th December 2018.

The principles which underpin the remuneration of the Non-Executive Directors are as follows: -

a) The Company should remunerate its Directors fairly and responsibly.

b) The remuneration should be sufficient to attract, motivate and retain directors to run the Company effectively.

c) The remuneration should be consistent with recognised best practice standards and is competitive in line with remuneration for other directors in competing sectors.

d) The remuneration should reflect the Directors' responsibilities, expertise and the complexity of the Company's activities.

The directors have not recommended any change to the remuneration policy.

### Payments to past Directors

There was no payment of Directors' fees to past directors during the year.

Approval by shareholders

As per section 681 (4) of the Companies Act, 2015, the Directors Remuneration Report has been presented to the members for approval.

# DIRECTORS REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2019 (continued)

### 2.0 INFORMATION SUBJECT TO AUDIT

The following table shows a single figure remuneration for the Executive Director, Chairman and Non-Executive Directors in respect of qualifying services for the year ended 30 June 2019 together with the comparative figures for 2018. The aggregate Directors' emoluments are shown in Note 30 (iv) of the audited financial statements.

| **Year ended 30 June 2018** | **Salary Shs 000** | **Fees Shs 000** | **Bonuses Shs 000** | **Expense allowances Shs 000** | **Loss of office/ Termination Shs 000** | **Estimated value for non-cash benefits Shs 000** | **Total Shs 000** |
|---|---|---|---|---|---|---|---|
| Nicholas Hutchinson | 28,213 | - | 7,260 | 931 | - | 10,755 | 47,159 |
| Isabella Ochola Wilson | - | 4,220 | - | - | - | - | 4,220 |
| Alan McKittrick | - | 1,345 | - | - | - | - | 1,345 |
| Andrew Stewart Ndegwa* | - | 1,495 | - | - | - | - | 1,495 |
| Patrick Obath | - | 2,480 | - | - | - | - | 2,480 |
| Jinaro Kipkemoi Kibet | - | 1,460 | - | - | - | - | 1,460 |
| Vitalis Ondeke Ojode | - | 2,630 | - | - | - | - | 2,630 |
| Shilpa Haria | - | 2,545 | - | - | - | - | 2,545 |
| | **28,213** | **16,175** | **7,260** | **931** | **-** | **10,755** | **63,334** |

| **Year ended 30 June 2019** | **Salary Shs 000** | **Fees Shs 000** | **Bonuses Shs 000** | **Expense allowances Shs 000** | **Loss of office/ Termination Shs 000** | **Estimated value for non-cash benefits Shs 000** | **Total Shs 000** |
|---|---|---|---|---|---|---|---|
| Nicholas Hutchinson | 26,803 | - | 6,586 | 1,086 | - | 9,914 | 44,389 |
| Isabella Ochola Wilson | - | 3,424 | - | - | - | - | 3,424 |
| Alan McKittrick | - | 2,347 | - | - | - | - | 2,347 |
| Andrew Stewart Ndegwa* | - | 2,328 | - | - | - | - | 2,328 |
| Patrick Obath | - | 2,032 | - | - | - | - | 2,032 |
| Jinaro Kipkemoi Kibet | - | 1,881 | - | - | - | - | 1,881 |
| Vitalis Ondeke Ojode | - | 2,124 | - | - | - | - | 2,124 |
| Shilpa Haria | - | 2,208 | - | - | - | - | 2,208 |
| | **26,803** | **16,344** | **6,586** | **1,086** | **-** | **9,914** | **60,733** |

*Payment for qualifying services provided by Andrew Ndegwa as stated in the tables above was made to First Chartered Securities Limited.

On behalf of the Board of Directors

**Patrick Obath**
Chairman, Nominations and Remuneration Committee
26 September 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2019

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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:

i. Designing, implementing and maintaining such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and applying them consistently; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Group and 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 Group and the Company 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.

Approved by the Board of Directors on 26 September 2019 and signed on its behalf by:

**I. Ochola- Wilson (Mrs)**

**N. Hutchinson**

# VALUE THROUGH QUALITY NUTRITION

**RISK MANAGEMENT & INTERNAL AUDIT**

# RISK MANAGEMENT

**Towards Integrated Enterprise Risk Management for effective decision making**

Enterprise-wide risk management continues to be an integral part of our business; and supports our strategic and key business objectives. We have continued with the implementation of an integrated risk management approach that promotes a risk-aware culture in managing our risk exposures across the organisation. This approach, which is anchored on our established Enterprise Risk Management Governance Framework calls for in-depth understanding of both potential threats and opportunities that affect our strategic ambitions and overall business strategy. We recognize that integration is an on-going process that requires consistent leadership; starting from the Board; through the various levels of Management; and to every employee in the organisation. The Board Audit and Risk Committee provides oversight on Risk Management in the Group.

Our enterprise-wide risk management approach focuses on managing both existing and emerging risks. Our risk management program involves in-depth assessment of our processes to identify key potential risks, root causes of these risks, prioritisation of the risks based on an assessment of their likelihood and impact; and putting in place a response plan. This approach has helped management and employees to make prompt and informed business decisions; thus promoting risk-aware thinking at every level of the organisation. We carry out analyses on past events, current trends and predict future scenarios; and proactively address these events. The Risk Management Committee, chaired by the Group Managing Director is responsible for implementation of a risk-aware culture in all Company operations in line with our Risk Management Policy.

The ever changing and disruptive market place creates risk exposures and uncertainties that require us to be forward looking in anticipation, identification and preparation for emerging and evolving risks. Our approach is to remain agile and proactive in managing our risk exposure; supported by our Risk Governance structure. The Group has embedded risk management into our business and project planning processes; as well as performance management. Going forward, training on risk ownership and mitigation; and benefits of Enterprise Risk Management to the business will continue for all involved parties; taking into consideration our operations, risk culture and organizational structure.

**Risk Assessments**

Quarterly risk assessments are conducted throughout the business; and mitigating strategies are identified and acted upon promptly by the various Risk Committees and process owners. Risk Champions in each Section/or department work closely with the Risk and Compliance Office in identifying and assessing operational risks.

We are committed to the management of risks in our operations as per the set Group's risk appetite and tolerance levels; in order to realise our business objectives.

# INTERNAL AUDIT

The Internal Audit department performs various activities in evaluation of the risk management, control and governance process. Significant business risks and weaknesses in the systems of strategic, operational and financial controls are highlighted and brought to the attention of senior management and the Board Audit and Risk Committee. In line with best practice, Internal Audit has a written charter which spells out the purpose, authority and responsibility of the function. The charter also gives the function mandate to carry out audits of the Company and its subsidiaries.

## Purpose of Internal Audit function

The function provides independent objective assurance and consulting services designed to add value and improve the Group's operations. It helps the Group achieve its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of Governance, Risk Management, Control and Accountability processes to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various Governance groups occurs as needed;
- Significant financial, managerial and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with applicable policies, laws and regulations;
- Resources are acquired economically, used efficiently and adequately protected;
- Plans and objectives are achieved;
- Quality and continuous improvement are fostered in Group's control process;
- Significant legal or regulatory issues impacting on the Group are recognised and addressed appropriately; and
- Opportunity for improving if identified during audits are communicated to the appropriate level of management and independent follow-up made to ensure implemented.

## Independence of the Internal Audit Function

To maintain independence, the Head of Internal Audit and Internal Audit staff;

- Are directly responsible to the Board Audit and Risk Committee functionally and to the Group Managing Director administratively and are independent of any other department, section or officer.
- Have no executive or managerial powers, functions or duties except those relating to the Internal Audit unit.
- Are not involved in the day-to-day operations of the Group.
- Are not responsible for the detailed design, development and implementation of new systems and procedures, except as advisors.

Internal Audit remains independent and has fully discharged its mandate and responsibilities. Issues raised in various audit reviews are reported to both management for remediation and to the Board Audit and Risk Committee for oversight. A tracking system via the MKinsight Audit software is in-place to ensure remedial actions for all issues identified during the audit process are tracked to completion and for independent validation.

There has been a significant improvement in the closure rate of audit issues over the last few years. In 2016, the closure rate of Group audit issues stood at 60%, which has since improved significantly to over 85% in 2018/19FY.

## Authority of the Internal Audit Function

Independence of the Internal Audit Function

To maintain independence, the Head of Internal Audit and Internal Audit staff;

- Are directly responsible to the Board Audit and Risk Committee functionally, to the Group Managing Director administratively and are independent of any other department, section or officer.
- Have no executive or managerial powers, functions or duties except those relating to the Internal Audit unit.
- Are not involved in the day-to-day operations of the Group.
- Are not responsible for the detailed design, development and implementation of new systems and procedures, except as advisors.


# TOUCHING LIVES THROUGH QUALITY NUTRITION

# GOVERNANCE AUDITOR'S REPORT

Adherence to the pertinent principles of corporate governance continues to be a priority for many Boards in Kenya. Boards are keen to adhere to corporate governance principles that are appropriate for the nature and scope of their company's business, establish policies and strategies for achieving them, and annually assess the extent to which the company has observed the set policies and strategies. The Code of Corporate Governance for Issuers of Securities in Kenya ("the Code") specifically requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board and the company have applied corporate governance principles. The annual Governance Audit ("GA") should be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

Unga Group Plc ("the Company"), in compliance with the Code, retained FCS. Catherine Musakali of Dorion Associates ("the Auditor") to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in corporate governance; and that the Company has adopted best practices in corporate governance as a means of ensuring sustainability

The scope of the Audit is derived from the Code, the Companies and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.

### STATEMENT OF THE RESPONSIBILITY OF DIRECTORS

The Board of Directors of Unga Group Plc is committed to high standards of good corporate governance and strives for continuous improvement by seeking to identify and address any loopholes and gaps in the Company's governance structures and processes as required by applicable laws and regulations, in particular, the Companies Act, 2015 ("the Act") and the Code. It is on this premise that the Board commissioned a Governance Audit for the year ended 30th June 2019.

The Board has taken steps to put in place appropriate, relevant and required policies and processes to ensure an appropriate corporate governance framework. The Board is also keen on embedding a culture that gives priority to ethical standards, professionalism, integrity and compliance.

The Board is acutely aware of its responsibilities and has taken steps to focus on the sustainability of the Company. In this regard, the Board has enhanced its oversight in relation to enterprise risk management, constantly evaluating and reviewing the effectiveness of risk management programs. The Board has also ensured that employees have a good understanding of the Group's values, code of conduct and ethical business practices with a view to supporting its strategy with an appropriate corporate culture.

The Board is committed to ensuring that it is adding value to the Company and its stakeholders, and in this regard annually evaluates its performance, that of its committees, the Chairman of the Board, individual Directors and Company Secretary.

### GOVERNANCE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the Company in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our Audit in accordance with the Institute of Certified Secretaries Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the Company's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

### OPINION

In our opinion, the Board has put in place a satisfactory corporate governance framework, which is to a large extent in compliance with the legal and regulatory framework, and in this regard we issue an unqualified opinion.

**FCS. Catherine Musakali,**
ICPSK GA. No 006
Dorion Associates

For more information about this report, please contact: Catherine Musakali – cmusakali@dorion.co.ke

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNGA GROUP Plc

**Report on the audit of the financial statements**

## Our opinion

We have audited the accompanying financial statements of Unga Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 87 to 139 which comprise the consolidated statement of financial position at 30 June 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, together with the Company statement of financial position as at 30 June 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Unga Group Plc give a true and fair view of the financial position of the Group and the Company at 30 June 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

## Basis for opinion

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 ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Estimation of expected credit losses on trade receivables<br><br>The Group has adopted IFRS 9, Financial instruments, which was applicable for the first time in the financial statements for the year ended 30 June 2019. The standard requires a recognition of credit loss allowances on initial recognition of financial assets, which necessitate the use of significant judgements and estimates by management<br><br>As described in note 3 of the financial statements, management have applied significant judgements and estimates in the following areas: | We obtained an understanding of the Group's IFRS 9 implementation process, including governance over the implementation process, and reviewed the appropriateness of the updated accounting policies for compliance with IFRS 9;<br><br>We assessed and tested key modelling assumptions for reasonableness, and validated key inputs into the expected credit risk model against source documents and reports and checked for mathematical accuracy; and |

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNGA GROUP Plc (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| (i) The application of IFRS 9 risk parameters i.e. probably of default (PD), loss given at default (LGD) and exposure at default (EAD) to trade receivables; and<br><br>(ii) The definition of default, determination of probability of default matrix and identification of exposures with significant deterioration in credit quality.<br><br>Disclosures on the application of IFRS 9 are set out in notes 2 and 4 of the financial statements. | We assessed the adequacy of disclosures in the financial statement for compliance with IFRS 9. |

## Other information

The other information comprises the Corporate Information, Chairman's Statement, Group Managing Director's Report, Directors' report, Directors' remuneration report, and the Statement of Directors' Responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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.

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNGA GROUP Plc (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 significant doubt on the Group'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 in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other matters prescribed by the Kenyan Companies Act, 2015**

Report of the directors

In our opinion the information given in the report of directors' report on pages 71 to 72 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on page 76 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

**Certified Public Accountants**
Nairobi
26 September 2019
**FCPA Michael Mugasa – Practicing Certificate Number 1478**
Signing Partner responsible for the independent audit

# FIVE YEAR FINANCIAL REVIEW

| Consolidated Statement of Comprehensive Income | 2015 Shs 000 | 2016 Shs 000 | 2017 Shs 000 | 2018 Shs 000 | 2019 Shs 000 |
|---|---|---|---|---|---|
| Revenue | 18,723,250 | 18,947,944 | 19,528,785 | 19,982,070 | 17,895,670 |
| Operating profit | 785,035 | 714,328 | 237,868 | 1,267,832 | 718,960 |
| Profit before tax | 635,695 | 738,084 | 228,350 | 1,293,695 | 615,202 |
| Tax expense | (205,914) | (226,608) | (116,438) | (510,492) | 70,388 |
| Profit for the year from discontinued operations | 192,085 | (2,660) | (118,951) | - | - |
| **Profit for the period** | **621,866** | **508,816** | **(7,039)** | **783,203** | **544,814** |
| Basic and diluted earnings per share (Shs) | Shs 5.27 | Shs 4.32 | Shs 0.49 | Shs 6.72 | Shs 4.52 |

**Consolidated Statement of Financial position at 30 June**

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Non Current Assets | 3,182,410 | 2,531,797 | 2,855,945 | 3,336,842 | 3,969,430 |
| Current Assets | 5,452,719 | 5,819,762 | 6,599,371 | 6,595,822 | 6,676,636 |
| **Total Assets** | **8,635,129** | **8,351,559** | **9,455,316** | **9,932,664** | **10,646,066** |
| **EQUITY AND LIABILITIES** | | | | | |
| Share Capital | 378,535 | 378,535 | 378,535 | 378,535 | 378,535 |
| Share Premium | 73,148 | 73,148 | 73,148 | 73,148 | 73,148 |
| Reserves | 2,937,666 | 2,793,795 | 2,908,596 | 3,336,208 | 3,587,846 |
| Equity atributable to equity holders of the parent | 3,389,349 | 3,245,478 | 3,360,279 | 3,787,891 | 4,039,529 |
| Non controlling interests | 1,929,271 | 1,857,494 | 1,550,166 | 1,821,184 | 2,015,881 |
| **Total Equity** | **5,318,620** | **5,102,972** | **4,910,445** | **5,609,075** | **6,055,410** |
| Non current liabilities | 1,014,344 | 716,699 | 564,327 | 1,244,070 | 1,177,048 |
| Current Liabilities | 2,302,165 | 2,531,888 | 3,980,544 | 3,079,519 | 3,413,608 |
| | 3,316,509 | 3,248,587 | 4,544,871 | 4,323,589 | 4,590,656 |
| **Total Equity and Liabilities** | **8,635,129** | **8,351,559** | **9,455,316** | **9,932,664** | **10,646,066** |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| For the year ended 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| Revenue from contracts with customers | 5 | 17,895,670 | 19,982,070 |
| Cost of sales | | (15,363,481) | (16,671,007) |
| **Gross profit** | | **2,532,189** | **3,311,063** |
| Other income | 8 | 46,322 | 55,254 |
| Selling and distribution costs | | (993,193) | (900,708) |
| Administrative expenses | | (866,358) | (1,197,776) |
| **Operating profit** | | **718,960** | **1,267,833** |
| Finance income | 10 | 62,990 | 116,649 |
| Finance costs | 10 | (166,748) | (90,786) |
| Profit before income tax | | 615,202 | 1,293,695 |
| Income tax expense | 13 | (70,388) | (510,492) |
| **Profit for the year** | | **544,814** | **783,203** |
| **Attributable to:** | | | |
| Owners of the parent | | 342,147 | 509,082 |
| Non-controlling interests | | 202,667 | 274,121 |
| | | **544,814** | **783,203** |

Earnings per share attributable to owners of the Company (expressed in Kenya shilling)

| | | 2019 | 2018 |
|---|---|---|---|
| **Basic and diluted earnings per share** | 6 | **4.52** | **6.72** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| Profit for the year | | 544,814 | 783,203 |
| **Other comprehensive income for the year** | | | |
| Items that will not be subsequently reclassified to profit or loss | | - | - |
| Re-measurement of retirement benefit scheme asset | 27 | (31,328) | 136 |
| Deferred income tax thereon | | 9,398 | (41) |
| Currency translation differences on foreign operations | | (842) | (8,961) |
| **Total other comprehensive loss income for the year** | | (22,772) | (8,866) |
| **Total comprehensive income for the year** | | **522,042** | **774,337** |
| Attributable to; | | | |
| Owners of the parent | | 327,345 | 503,319 |
| Non-controlling interest | | 194,697 | 271,018 |
| | | **522,042** | **774,337** |

# COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the year ended 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| Interest income | 10 | 10,291 | 22,054 |
| Administrative expenses | | (46,241) | (43,603) |
| **Loss before income tax** | | **(35,950)** | **(21,549)** |
| Income tax expense | | (5,947) | - |
| **Loss for the year** | | **(41,897)** | **(21,549)** |
| Other comprehensive income | | - | - |
| **Total comprehensive loss** | | **(41,897)** | **(21,549)** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| At 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 23 | 3,767,385 | 3,194,280 |
| Leases | 24 | 174,606 | 18,354 |
| Intangible asset | 25 | 22,723 | 74,300 |
| Post-employment benefits obligation | 27 | - | 24,674 |
| Deferred income tax | 18 | 4,716 | 25,234 |
| | | **3,969,430** | **3,336,842** |
| **Current assets** | | | |
| Inventories | 19 | 2,752,081 | 2,689,813 |
| Trade and other receivables | 20 | 3,017,093 | 2,813,438 |
| Current income tax | | 66,124 | 4,116 |
| Cash and bank balances | 28 | 841,338 | 1,088,455 |
| | | **6,676,636** | **6,595,822** |
| **TOTAL ASSETS** | | **10,646,066** | **9,932,664** |
| **EQUITY AND LIABILITIES** | | | |
| Capital and reserves | | | |
| Share capital | 14 | 378,535 | 378,535 |
| Share premium | | 73,148 | 73,148 |
| Other reserves | 15 | (46,131) | (31,329) |
| Retained earnings | | 3,633,977 | 3,367,537 |
| | | **4,039,529** | **3,787,891** |
| Non-controlling interests | 16 | 2,015,881 | 1,821,184 |
| **Total equity** | | **6,055,410** | **5,609,075** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Post-employment benefits obligation | 27 | 31,660 | 9,351 |
| Deferred income tax | 18 | 249,095 | 356,202 |
| Borrowings | 17 | 802,352 | 815,363 |
| Capital grants | 22 | 59,830 | 63,154 |
| Lease liabilities | 24 | 34,111 | - |
| | | **1,177,048** | **1,244,070** |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 3,112,013 | 2,611,469 |
| Current income tax | | 6,430 | 391,224 |
| Lease liabilities | 24 | 34,652 | - |
| Borrowings | 17 | 260,513 | 76,826 |
| | | **3,413,608** | **3,079,519** |
| **Total liabilities** | | **4,590,656** | **4,323,589** |
| **TOTAL EQUITY AND LIABILITIES** | | **10,646,066** | **9,932,664** |

The financial statements on pages 87 to 139 were approved for issue by the Board of Directors on 26 September 2019 and signed on its behalf by:

**I. Ochola-Wilson (Mrs)**
Director

**N. Hutchinson**
Director

# COMPANY STATEMENT OF FINANCIAL POSITION

| At 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 26 | 1,297,335 | 1,297,335 |
| **Total non-current assets** | | **1,297,335** | **1,297,335** |
| **Current assets** | | | |
| Trade and other receivables | 20 | 123,704 | 142,807 |
| Cash and bank balances | 28 | 2,756 | 228,782 |
| **Total current assets** | | **126,460** | **371,589** |
| **TOTAL ASSETS** | | **1,423,795** | **1,668,924** |
| **EQUITY AND LIABILITES** | | | |
| Capital and reserves | | | |
| Ordinary shares | 14 | 378,535 | 378,535 |
| Share premium | | 73,148 | 73,148 |
| Retained earnings | | 788,865 | 906,469 |
| **Total equity** | | **1,240,548** | **1,358,152** |
| Current liabilities | | | |
| Trade and other payables | 21 | 183,247 | 310,772 |
| **Total current liabilities** | | **183,247** | **310,772** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,423,795** | **1,668,924** |

The financial statements on pages 87 to 139 were approved for issue by the Board of Directors on 26 September 2019 and signed on its behalf by:

**I. Ochola-Wilson (Mrs)**
Director

**N. Hutchinson**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Year ended 30 June 2018 | Share capital Shs '000 | Share premium Shs '000 | Other reserves Shs '000 | Retained earnings Shs '000 | Equity attributable to equity holders Shs '000 | Non-controlling interests Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|
| At start of year | 378,535 | 73,148 | (25,566) | 2,934,162 | **3,360,279** | 1,550,166 | **4,910,445** |
| Profit for the year | - | - | - | 509,082 | **509,082** | 274,121 | **783,203** |
| Other comprehensive income for the year | - | - | (5,763) | - | **(5,763)** | (3,103) | **(8,866)** |
| **Total comprehensive income for the year** | **-** | **-** | **(5,763)** | **509,082** | **503,319** | **271,018** | **774,337** |
| Transactions with owners | | | | | | | |
| Dividend paid to equity holders | - | - | - | (75,707) | **(75,707)** | - | **(75,707)** |
| **At end of year** | **378,535** | **73,148** | **(31,329)** | **3,367,537** | **3,787,891** | **1,821,184** | **5,609,075** |

| Year ended 30 June 2019 | Share capital Shs '000 | Share premium Shs '000 | Other reserves Shs '000 | Retained earnings Shs '000 | Equity attributable to equity holders Shs '000 | Non-controlling interests Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|
| At start of year | 378,535 | 73,148 | (31,329) | 3,367,537 | **3,787,891** | 1,821,184 | **5,609,075** |
| Profit for the year | - | - | - | 342,147 | **342,147** | 202,667 | **544,814** |
| Other comprehensive income for the year | - | - | (14,802) | - | **(14,802)** | (7,970) | **(22,772)** |
| **Total comprehensive income for the year** | **-** | **-** | **(14,802)** | **342,147** | **327,345** | **194,697** | **522,042** |
| Transactions with owners | | | | | | | |
| Dividend paid to equity holders | - | - | - | (75,707) | **(75,707)** | - | **(75,707)** |
| **At end of year** | **378,535** | **73,148** | **(46,131)** | **3,633,977** | **4,039,529** | **2,015,881** | **6,055,410** |

# COMPANY STATEMENT OF CHANGES IN EQUITY

| Year ended 30 June 2018 | Share Capital Shs'000 | Share Premium Shs'000 | Retained earnings Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| At start of year | 378,535 | 73,148 | 1,003,725 | **1,455,408** |
| **Total comprehensive income** | **-** | **-** | **(21,549)** | **(21,549)** |
| Transactions with owners | | | | |
| Dividends paid | - | - | (75,707) | **(75,707)** |
| **At end of year** | **378,535** | **73,148** | **906,469** | **1,358,152** |
| **Year ended 30 June 2019** | | | | |
| At start of year | 378,535 | 73,148 | 906,469 | **1,358,152** |
| **Total comprehensive income** | **-** | **-** | **(41,897)** | **(41,897)** |
| Transactions with owners | | | | |
| Dividends paid | - | - | (75,707) | **(75,707)** |
| **At end of year** | **378,535** | **73,148** | **788,865** | **1,240,548** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| Year ended 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from/ (absorbed by) operations | 28(a) | 1,362,759 | (116,010) |
| Income tax paid | | (540,841) | (33,501) |
| Interest paid | | (113,046) | (87,131) |
| **Net cash from/ (used in) operating activities** | | **708,872** | **(236,642)** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 23 | (865,937) | (875,818) |
| Payments for right-of-use assets | 24 | (79,562) | - |
| Purchase of intangible assets | 25 | (19,496) | (16,525) |
| Proceeds of disposal of property, plant and equipment | | 9,095 | 5,923 |
| **Net cash used in investing activities** | | **(955,900** | **(886,420)** |
| **Financing activities** | | | |
| Dividends paid to equity holders | 7 | (75,707) | (75,707) |
| Proceeds from borrowings | 17 | 364,422 | 742,606 |
| Repayments of borrowings | 17 | (193,746) | (195,542) |
| Payment of lease liabilities | 24 | (84,711) | - |
| Capital grants received | 22 | - | 20,738 |
| **Net cash from financing activities** | | **10,258** | **492,095** |
| **Net decrease in cash and cash equivalents** | | **(236,770)** | **(630,967)** |
| **Movement in cash and cash equivalents** | | | |
| At start of year | | 1,088,455 | 1,714,755 |
| Decrease | | (236,770) | (630,967) |
| Effects of exchange rate changes | | (10,347) | 4,667 |
| **At end of year** | **28(b)** | **841,338** | **1,088,455** |

# COMPANY STATEMENT OF CASH FLOWS

| Year ended 30 June | Notes | 2019 Shs '000 | 2018 Shs '000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 28(a) | (150,319) | 14,263 |
| Income tax paid | | - | - |
| **Net cash from operating activities** | | **(150,319)** | **14,263** |
| **Financing activities** | | | |
| Dividends paid to shareholders | 7 | (75,707) | (75,707) |
| Net cash used in financing activities | | (75,707) | (75,707) |
| **Net decrease in cash and cash equivalents** | | **(226,026)** | **(61,444)** |
| **Movement in cash and cash equivalents** | | | |
| At start of year | | 228,782 | 290,226 |
| Decrease | | (226,026) | (61,444) |
| **At end of year** | **28(b)** | **2,756** | **228,782** |

# NOTES

## 1 General information

Unga Group Plc is incorporated in Kenya under the Companies Act as a limited liability company and is domiciled in Kenya. The address of its registered office is:

Plot No.209/6841
Ngano House, Commercial Street
Industrial Area
P O Box 30096, 00100
Nairobi

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis. All values are shown in thousands of Kenya Shillings.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### Changes in accounting policy and disclosures

*i) New standards, amendments and interpretations adopted by the Company*

Two new standards and a number of amendments to standards became effective for the first time in the financial year beginning 1 July 2018 and have been adopted by the Group. None of the amendments has had an effect on the Company's financial statements, but the two new standards have had an impact, as follows:

*IFRS 9 - Financial Instruments*

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

#### Impact on adoption

The Group has adopted IFRS 9 'Financial instruments' from 1 July 2018.The adoption of IFRS 9 had the following impact on the Group's financial statements.

- Change in classification of the measurement categories for financial instruments.
- Change from the IAS 39 incurred loss model to the expected credit loss (ECL) model to calculate impairment of financial assets.

#### Impairment

Receivables are recognised initially at fair value and subsequently measured at amortised cost less the provision for expected credit losses.

Prior to adopting IFRS 9, the Group would determine the provision for impairment for trade receivables when there was objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivables. Under IFRS 9, the Group has applied the simplified approach to determine the expected credit losses (ECL) for trade receivables. ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing and payment profile of sales by applying historic bad debt expense to the payment profile of the sales population. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations

# NOTES (continued)

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

| | IAS 39 | | | IFRS 9 | | |
|---|---|---|---|---|---|---|
| **Financial assets** | **Category** | **Measure-ment** | **Carrying amount Shs'000** | **Category** | **Measurement** | **Carrying amount Shs'000** |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 1,086,401 | Financial assets at amortised cost | Amortised cost | 1,086,401 |
| Trade receivables | | | 962,361 | | | 962,361 |
| Due from related parties | | | 522,782 | | | 522,782 |
| Other receivables | | | 547,165 | | | 547,165 |

No material additional provisions were required as at 1 July 2018. As a result, the opening retained earnings have not been restated.

*IFRS 15: Revenue from Contracts with Customers*

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the Group. The application of the standard, retrospectively, in the current year has not had an impact on the financial position or financial performance of the Group, and a prior period adjustment has, therefore, not been required. Further, the application of the standard has not had a significant impact on the financial position or financial performance of the Group in the current year.

*(ii) New standards, amendments and interpretations not yet effective but early adopted*

*IFRS 16: Leases*

IFRS 16 Leases was issued on 13 January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Virtually all leasing arrangements will be brought on to the balance sheet as financial obligations and 'right-of-use' ("ROU") assets other than leases of 'low-value' underlying assets and short-term leases of less than twelve months.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

*IFRS 16: Leases (continued)*

At the commencement date of a lease, a lessee will recognise a lease liability and ROU asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the ROU asset. Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. In addition, IFRS 16 also requires both lessees and lessors to make more extensive disclosures than under IAS 17.

The Group elected to early adopt the standard effective 1 July 2018 concurrently with the adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments.

*(i) Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2018;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The impact upon adoption of the standard is as per the tables below;

| **Statement of profit or loss** | **30.6.2019 (IAS 17) Shs'000'** | **IFRS 16 Adjustment Shs '000** | **30.6.2019 as presented Shs'000** |
|---|---|---|---|
| Cost of sales | 15,377,538 | (14,057) | 15,363,481 |
| **Operating profit** | **733,017** | **(14,057)** | **718,960** |
| Finance cost | 145,350 | 21,398 | 166,748 |
| **Profit before tax** | **607,861** | **7,341** | **615,202** |
| **Profit for the year** | **537,473** | **7,341** | **544,814** |

ii) New standards, amendments and interpretations not yet effective but early adopted

| **Balance sheet** | | | |
|---|---|---|---|
| Right-of-use assets | - | 61,422 | 61,422 |
| Lease liabilities | - | (68,763) | (68,763) |
| **Net liability** | - | **(7,341)** | **(7,341)** |

# NOTES (continued)

**(b) Consolidation**

*(i) Subsidiaries*

Subsidiaries are are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets

Investments in subsidiaries are accounted for at cost less impairment in parent company financial statements. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred over the amount in the acquiree and the acquisition-date fair value over any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(ii) Transactions and non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

### (d) Functional currency and translation of foreign currencies

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value profit or loss in profit or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to statement of other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### (e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group.

The Group manufactures human nutrition products, animal nutrition products and distributes animal health products. Sales of goods are recognised at a point in time depending on the nature of goods and services, when the Company delivers products to the customer and there are no unfulfilled obligations that could affect the customers' acceptance of the goods. There is no variable element to the contract price, and payment, less any deposit already paid, is typically due within 30 days of delivery.

Interest Income is recognised using the effective interest method.

Dividends are recognised as income in the period the right to receive payment is established.

### (f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and subsequently depreciated. 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 recognised as a separate asset, as appropriate, only when it is probable that future

# NOTES (continued)

economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

| | |
|---|---|
| Buildings on long leasehold land | 2.5% |
| Buildings on short leasehold land | over period of lease |
| Computer equipment | 33.3% |
| Plant and machinery | 5 - 7.5% |
| Furniture and fittings | 12.5% |
| Motor vehicles | 25% |
| Silos | Shorter of 50 years or the unexpired period of the lease for the land on which they are built |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

**(g) Intangible assets**

*(i) Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess consideration transferred over interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or Groups of cash generating units CGUs that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

### (g) Intangible assets (continued)

*(i) Goodwill (continued)*

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

*(ii) Computer software*

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable cots that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Developments costs previously recognized as an expense are not recognized as an asset in a subsequent period. Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed three years.

### (h) Non-current assets (or disposal Groups) held for sale

Non-current assets (or disposal Groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

### (i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation but are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in purchasing or manufacturing the inventories plus an allocation of normal overhead expenditure attributable to the processes of production hence the cost is determined using standard costs that approximate actual weighted average cost. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling and distribution. Specific provisions are made for obsolete, slow moving and defective inventories.

# NOTES (continued)

**(k) Share capital**

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

**(l) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

**(m) Financial instruments**

*(i) Initial recognition*

Financial instruments are recognised when, and only when, the Company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Company commits itself to the purchase or sale.

*(ii) Classification*

The Group classifies its financial instruments into the following categories:

a) Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost;

b) Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at fair value through other comprehensive income;

c) All other financial assets are classified and measured at fair value through profit or loss;

Notwithstanding the above, the Company may:

- On initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income; and
- On initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

d) Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The Company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

e) All other financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as shown under note 2 *IFRS 9-Financial instruments*- classification and measurement above.

*(iii) Initial measurement*

On initial recognition:

a) Financial assets or financial liabilities classified as at fair value through profit or loss are measured at fair value.

b) Trade receivables are measured at their transaction price.

c) All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

### (m) Financial instruments (continued)

*(iv) Subsequent measurement*

Financial assets and financial liabilities after initial recognition are measured either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss according to their classification.

Interest income, dividend income, and exchange gains and losses on monetary items are recognised in profit or loss.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

*(v) Impairment*

The Company recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost or at fair value through other comprehensive income. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

*(vi) Presentation*

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the Group's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the Group does not have an unconditional right to defer settlement for at least 12 months after the statement of financial position date.

*(vii) Derecognition/write off*

Financial assets are de-recognised when the rights to receive cash flows from the financial asset have expired, when the Company has transferred substantially all risks and rewards of ownership, or when the Company has no reasonable expectations of recovering the asset.

Financial liabilities are de-recognised only when the obligation specified in the contract is discharged or cancelled or expires.

When a financial asset measured at fair value through other comprehensive income, other than an equity instrument, is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. For equity investments

# NOTES (continued)

for which an irrevocable election has been made to present changes in fair value in other comprehensive income, such changes are not subsequently transferred to profit or loss.

*(viii) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet only 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.

## (n) Leases

explained in note 2 above, the Group has changed its accounting policy for leases where the Group is the lessee. Until 30 June 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### The Group's leasing activities and how they are accounted for

The Group leases various warehouses, office spaces and vehicles. Rental contracts are typically made for fixed periods of 6 months to 4 years, but may have extension options. There are no non-lease components in the lease contracts and consideration is based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and there are no security interests in the leased assets that are held by the lessor.

From 1 July 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option;
  and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group has used recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- Restoration costs.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

### (n) Leases (continued)

Right-of-use assets are generally depreciated over the lease term on a straight-line basis. Payments associated with short-term leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less

**Extension and termination terms**
Extension and termination options are included in the leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

**Critical judgements in determining the lease term**
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For the Group leases, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate); and
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in warehouses and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

As at 30 June 2018, potential future cash outflows of Shs. 35 million (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

### (o) Employee benefits

*(i) Retirement benefit scheme assets*

The Group operates defined benefit retirement schemes for its employees. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability/ asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they

# NOTES (continued)

arise. Past-service costs are recognised immediately in income. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees.

The Group employees also contribute to the appropriate National Social Security Funds, which is a defined contribution scheme.

*(ii) Other post-employment obligations*

The Group operates an unfunded service gratuity benefit scheme for unionisable employees based on basic salary and years of service. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

## (p) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date in the countries where the company and its subsidiaries operate and generate taxable income. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled or asset realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## (q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

## (r) Dividend distribution

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

# NOTES (continued)

## 2 Summary of significant accounting policies (continued)

### (s) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

### (t) Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the company will comply with all attached conditions.

*(i) Revenue Grants*

Grants received to compensate expenses or for the purpose of giving immediate support to the company with no future related costs are recognised in the statement of profit or loss in the year of receipt.

*(ii) Capital Grants*

Where a grant is related to an asset, the grant is presented in the statement of financial position and is credited in the statement of profit or loss over the periods and in the proportions in which depreciation expense on those assets they are used to finance is recognized.

# NOTES (continued)

## 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expected future events that are believed to be reasonable under the circumstances.

*(i) Critical accounting estimates and assumptions*

### Useful lives of plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. The
depreciation rates applied in the year are set out in Note 2 (f).

Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

### Impairment losses on financial assets

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements and estimations are also required in applying the accounting requirements for measuring ECL, such as:

- The application of IFRS 9 risk parameters i.e. probably of default (PD), loss given at default (LGD) and exposure at default (EAD) to trade receivables; and
- The definition of default, determination of probability of default matrix and identification of exposures with significant deterioration in credit quality.

## 4 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including liquidity risk, credit risk, the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Financial risk management is carried out by the finance department under guidance of the Board of Directors.

### Market risk

*(i) Interest rate risk*

**Group**

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The Group closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group regularly monitors financing options available to ensure optimum interest rates are obtained.

At 30 June 2019, an increase/decrease by 100 basis points in interest rates would have resulted in a decrease/increase in post-tax profit of Shs 10,628,620 (2018: Shs 8,921,890).

**Company**

The risk is not relevant to the company as it has no borrowings.

*(ii) Price risk*

Price risk arises from fluctuations in the prices of equity investments. At 30 June 2019 and 30 June 2018, the Group and company did not hold investments that would be subject to price risk; hence this risk is not relevant.

# NOTES (continued)

## 4 Financial risk management objectives and policies (continued)

*(iii) Foreign exchange*

**Group**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily, with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management's policy to manage foreign exchange risk is to hold foreign currency bank accounts which act as a natural hedge for purchases of imported raw materials and finished products

At 30 June 2019, if the Kenyan Shilling had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year and equity would have been Shs 5,329,384 (2018: Shs 7,604,916) higher/lower, mainly as a result of US dollar denominated trade payables and bank balances.

**Company**

The company has no foreign currency denominated financial instruments and thus is not exposed to foreign exchange risks.

### Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Credit risk is managed by the Group Finance Director who is responsible for managing and analysing credit risk for each new client before standard payment and delivery terms are offered.

In assessing whether the credit risk on a financial asset has increased significantly, the Group compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Group considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations.

The Group has adopted the Expected Credit Losses (ECL) model to determine the impairment of trade receivables. The Group opted to adopt the simplified approach of determining the impairment provision. This model includes some operational simplifications for trade and other receivables because they are often held by entities that do not have sophisticated credit risk management systems. These simplifications eliminate the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred.

Using the simplified approach, management has segmented their accounts receivable balances into Government debt and other trade debtors.

For the Government debt, management have applied judgement in estimating expected payment period which has been used to determine the required credit impairment as a reflection of time value of money.

For the other trade debtors, management determines probabilities of default (PD) using collection trends in the past adjusted for forward looking economic variables as applicable. The average PDs are then used to determine the provision. All debtors that are 120 days past due are considered to be at default. The exposure at default is adjusted for guarantees and other collateral held to determine the Loss Given Default (LGD).

Related party receivable balances are assessed for impairment based on the counterparty's ability to settle on demand. No impairment was noted from management's assessment.

# NOTES (continued)

Cash balances and long-term deposits have been assessed for credit loss based on the credit rating of the financial institutions holding the assets. The calculated impairment was considered immaterial to warrant any adjustment.

The amount that best represents the Group and Company's maximum exposure to credit risk at 30 June 2019 is made up as follows:

**Group**

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Cash at bank and short-term bank deposits | 840,915 | 1,086,401 |
| Trade receivables | 1,150,167 | 962,361 |
| Other receivables | 576,332 | 547,165 |
| Due from related parties (Note 30) | 474,415 | 522,782 |
| | **3,041,829** | **3,118,709** |

The Group holds bank guarantees and cash deposits amounting to Shs 1.239 billion (2018: Shs 1.230 billion) as collateral for trade receivables. No collateral is held for the other assets. All receivables that are either past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Neither past due nor impaired | 866,559 | 631,377 |
| Past due but not impaired | 283,608 | 330,984 |
| **Subtotal not impaired** | **1,150,167** | **962,361** |
| **Impaired – fully provided for (Note 20)** | **356,487** | **354,109** |

All receivables past due by more than 120 days are impaired and are carried at their estimated recoverable value.

# NOTES (continued)

## 4 Financial risk management objectives and policies (continued)

### Credit risk (continued)

**Company**

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Other receivables | 27,007 | 44,547 |
| Cash and cash equivalents (Note 28) | 2,756 | 228,782 |
| Due from related parties (Note 30) | 96,697 | 98,260 |
| | **126,460** | **371,589** |

### Concentration risk

The concentration risk relates to exposure on sales that the company faces on dealing with its key customers. This analysed as follows: One customer (Kenchic Limited) accounts for 13% of the revenue of the Group (2018:12%). This customer has a high credit rating. All other sales are to a wide unrelated customer base.

| | 2019 Shs'000 | % | 2018 Shs'000 | % |
|---|---|---|---|---|
| Kenchic Limited | 2,378,356 | 13% | 2,299,668 | 12% |
| Others | 15,517,314 | 87% | 17,682,402 | 88% |
| **Total** | **17,895,670** | **100%** | **19,982,070** | **100%** |

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which together with management, closely monitors the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at end of 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.

# NOTES (continued)

| Group | Below one year Shs'000 | 2-5 years Shs'000 | Over 5 years Shs'000 | Totals Shs'000 |
|---|---|---|---|---|
| **At 30 June 2019** | | | | |
| **Liabilities:** | | | | |
| Trade payables (Note 21) | 617,393 | - | - | 617,393 |
| Other payables (Note 21) | 1,677,247 | - | - | 1,677,247 |
| Due to related parties (Note 30) | 817,373 | - | - | 817,373 |
| Borrowings | 381,519 | 1,011,370 | - | 1,392,889 |
| Lease liabilities | 34,652 | 34,111 | - | 68,763 |
| **Total financial liabilities** | **3,528,184** | **1,045,481** | **-** | **4,573,665** |
| **At 30 June 2018** | | | | |
| **Liabilities:** | | | | |
| Trade payables (Note 21) | 889,627 | - | - | 889,627 |
| Other payables (Note 21) | 1,611,579 | - | - | 1,611,579 |
| Due to related parties (Note 30) | 110,263 | - | - | 110,263 |
| Borrowings | 252,293 | 948,989 | - | 1,201,282 |
| **Total financial liabilities** | **2,863,762** | **948,989** | **-** | **3,812,751** |

| Company | Below one year Shs'000 | Over one year Shs'000 | Totals Shs'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| **Liabilities:** | | | |
| Other payables (Note 21) | 3,142 | - | 3,142 |
| Due to related parties (Note 30) | 180,105 | - | 180,105 |
| | **183,247** | **-** | **183,247** |
| **At 30 June 2018** | | | |
| **Liabilities:** | | | |
| Other payables (Note 21) | 31,980 | - | 31,980 |
| Due to related parties (Note 30) | 278,792 | - | 278,792 |
| | **310,772** | **-** | **310,772** |

# NOTES (continued)

## 4 Financial risk management objectives and policies (continued)

### Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The constitution of capital managed by the Group is as follows:

| **Net cash reconciliation and gearing ratio** | **2019 Shs'000** | **2018 Shs'000** |
|---|---|---|
| Equity | 6,055,410 | 5,609,075 |
| Borrowings (Note 17) | 1,062,865 | 892,189 |
| Less: cash and cash equivalents (Note 28 (b)) | (841,338) | (1,088,455) |
| **Net cash** | **221,527** | **(196,266)** |
| **Gearing ratio** | **3.6%** | **0%** |

## 5 Revenue from contracts with customers

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2019 Shs'000** | **2018 Shs'000** | **2019 Shs'000** | **2018 Shs'000** |
| Analysis of sales by category: | | | | |
| Human nutrition | 8,395,499 | 10,615,256 | - | - |
| Animal nutrition | 9,333,264 | 9,205,906 | - | - |
| Animal health products | 166,907 | 160,908 | - | - |
| | **17,895,670** | **19,982,070** | **-** | **-** |

The above revenue is recognised at a point in time.

# NOTES (continued)

## 6 Earnings per share

Basic earnings per share has been calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

| | 2019 | 2018 |
|---|---|---|
| Profit for the year attributable to shareholders (Shs '000'): | 342,147 | 509,082 |
| Weighted average number of ordinary shares ('000') | 75,707 | 75,707 |
| **Basic and diluted earnings per share:** | **4.52** | **6.72** |

Diluted earnings per share is the same as basic earnings per share

## 7 Dividends

In respect of the current financial year, the directors propose a first and final dividend of Shs 0.50 (2018: Shs 1.00) per ordinary share amounting to Shs 37,853,493 (2018: Shs 75,706,986). The proposed dividend is subject to approval by shareholders at the next Annual General Meeting and has not been included as a liability in these financial statements. Payment of dividend is subject to withholding tax at a rate of 10% for non-resident shareholders and 5% for resident shareholders. For resident shareholders, withholding tax is only deductible where the shareholding is below 12.5%.

## 8 Other income

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Sale of packing material | 5,969 | 9,769 |
| Laboratory income | - | 24,028 |
| Gain on disposal of property, plant and equipment | 9,095 | 5,219 |
| Amortisation of capital grants (note 22) | 3,324 | 2,993 |
| Sundry income | 27,934 | 13,245 |
| | **46,322** | **55,254** |

## 9 Segmental reporting

The principal activity of the Group continues to be the milling of wheat and maize, baking and animal nutrition products, and the distribution of animal health products. Management has chosen to organise the entity around differences in market segments served by their products into two main segments namely human nutrition and animal nutrition and health. Management considers the fact that reports regularly reviewed by the chief operating decision maker in order to allocate resources and to assess performance are based on these two operating segments. Leadership team which comprises of the managing director, finance director, general managers and functional heads is considered to be the key decision-making organ.

# NOTES (continued)

## 9 Segmental reporting (continued)

**Description of the types of products and services from which each reportable segment derives its revenues**
Unga Group Plc has two reportable segments: human nutrition and animal nutrition and health. The human nutrition segment produces products for human consumption. The animal nutrition and health segment produce animal feed and mineral supplement products and distributes products for animal health.

**Measurement of operating segment profit or loss, assets and liabilities**
The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

**Factors that management uses to identify the entity's reportable segments**
Unga Group Plc segments are strategic business units that serve different market segments. They are managed separately because each business requires different technology and marketing strategies.

**Information about major customers**
One customer with revenues of Shs 2,378,356,000 (2018: Shs 2,299,668,000) under the animal health and nutrition segment accounts for more than 10% of the Group revenue.

| **Year ended 30 June 2019** | **Human Nutrition Shs'000** | **Animal Nutrition & Health Shs'000** | **Others Shs'000** | **Elimination Shs'000** | **Consolidation Shs'000** |
|---|---|---|---|---|---|
| Revenue from external customers | 9,094,558 | 9,500,171 | - | (699,059) | 17,895,670 |
| Inter-segment revenues | 699,059 | - | - | - | 699,059 |
| Interest income | 4,263 | 39,571 | 19,156 | - | 62,990 |
| Other income | 27,789 | 18,533 | - | - | 46,322 |
| Interest expense | 126,058 | 40,690 | - | - | 166,748 |
| Depreciation and amortisation | 286,059 | 120,796 | - | - | 406,855 |
| Reportable segmental profit | 75,022 | 712,484 | (172,304) | - | 615,202 |
| Income tax expense | 142,561 | (216,918) | 3,969 | - | (70,388) |
| **Other material non-cash items:** | | | | | |
| Reportable segment assets | 6,678,676 | 4,209,581 | 6,091,936 | (6,334,127) | 10,646,066 |
| Capital expenditures for non-current assets | 451,648 | 513,346 | - | - | 964,994 |
| Reportable segmental liabilities | 4,256,703 | 2,356,889 | 627,387 | (2,650,323) | 4,590,656 |

# NOTES (continued)

| Year ended 30 June 2018 | Human Nutrition Shs'000 | Animal Nutrition & Health Shs'000 | Others Shs'000 | Elimination Shs'000 | Consolidation Shs'000 |
|---|---|---|---|---|---|
| Revenue from external customers | 11,632,395 | 9,366,815 | - | (1,017,140) | 19,982,070 |
| Inter-segment revenues | 1,017,140 | - | - | - | 1,017,140 |
| Interest income | 67,832 | 26,763 | 22,054 | - | 116,649 |
| Other income | 35,035 | 20,219 | - | - | 55,254 |
| Interest expense | 85,836 | 4,950 | - | - | 90,786 |
| Depreciation and amortisation | 279,001 | 95,108 | - | - | 374,109 |
| Reportable segmental profit | 469,627 | 851,377 | (21,738) | - | 1,299,266 |
| Income tax expense | (245,260) | (265,232) | - | - | (510,492) |
| **Other material non-cash items:** | | | | | |
| Reportable segment assets | 7,255,781 | 3,922,297 | - | (1,245,414) | 9,932,664 |
| Capital expenditures for non-current assets | 380,097 | 512,246 | - | - | 892,343 |
| Reportable segmental liabilities | 4,974,481 | 2,143,872 | 827,207 | (3,621,971) | 4,323,589 |

## 10 Finance costs

| | Goup | | Company | |
|---|---|---|---|---|
| **Finance income:** | **2019 Shs'000** | **2018 Shs'000** | **2019 Shs'000** | **2018 Shs'000** |
| Interest income on deposits | 62,990 | 116,649 | 10,291 | 22,054 |
| **Finance costs:** | | | | |
| Interest expense on bank loans | 76,686 | 4,973 | - | - |
| Interest expense on bank overdrafts | 149 | 12,084 | - | - |
| Interest expense on trade finance | 36,211 | 70,074 | - | - |
| Finance charge on leases | 21,398 | - | - | - |
| Net foreign exchange losses | 32,304 | 3,655 | - | - |
| | **166,748** | **90,786** | **-** | **-** |

# NOTES (continued)

## 11 Breakdown of expenses by nature

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| The profit before taxation is arrived at after charging: | | |
| Staff costs (Note 12) | 1,236,216 | 1,102,375 |
| Depreciation of property, plant and equipment (Note 23) | 264,088 | 262,672 |
| Depreciation of right-of-use assets (Note 24) | 71,058 | 3,327 |
| Amortisation of intangible assets (Note 25) | 71,073 | 108,569 |
| Directors remuneration (Note 30) | 60,733 | 63,334 |
| Auditor's fees | 14,503 | 14,503 |
| Provision for impairment-trade receivables | 29,674 | 175,410 |
| Impairment of plant and equipment (Note 23) | - | 30,678 |

## 12 Staff costs

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Salaries and wages | 1,035,106 | 955,780 |
| Retirement benefits obligation (Note 27) | 52,802 | 42,450 |
| Social security costs (NSSF) contributions | 2,002 | 2,759 |
| Accrued leave pay | 52,341 | 56,730 |
| Other staff cost | 91,253 | 52,456 |
| Service gratuity (Note 27) | 2,712 | (7,800) |
| | **1,236,216** | **1,102,375** |

| The average number of employees of the Group during the year was | 2019 | 2018 |
|---|---|---|
| Production | 279 | 280 |
| Sales and distribution | 154 | 136 |
| Management and administration | 153 | 149 |
| | **586** | **565** |

# NOTES (continued)

## 13 Income tax expense

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Current income tax | 147,579 | 516,910 |
| Deferred income tax (Note 18) | (77,191) | (6,418) |
| **Income tax expense** | **70,388** | **510,492** |
| The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows: | | |
| **Profit before income tax** | **615,202** | **1,293,695** |
| Tax calculated at the statutory income tax rate of 30% (2018-30%) | 184,561 | 388,109 |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 39,186 | 12,994 |
| Income not subject to tax | (12,448) | (25,327) |
| Additional investment deduction on capital projects | (150,905) | - |
| Under provision of current income tax in prior years | (20,835) | 14,309 |
| Overprovision of deferred income tax in prior years | - | 3,651 |
| Deferred income tax asset not recognised | 30,829 | 116,756 |
| **Income tax expense** | **70,388** | **510,492** |

## 14 Share capital

| | Number of Shares (Thousands) | Ordinary Shares Shs'000 |
|---|---|---|
| **Authorised:** | | |
| Balance at 1 July 2017, 30 June 2018 and 30 June 2019 | 82,760 | 413,800 |
| **Issued and fully paid:** | | |
| Balance at 1 July 2017, 30 June 2018 and 30 June 2019 | 75,707 | 378,535 |

The total authorised number of ordinary shares is 82,760,000 with a par value of Shs 5 per share. The total number of ordinary shares issued 75,706,986 with a par value of Shs 5 per share. All issued shares are fully paid

# NOTES (continued)

## 15 Other reserves

Other reserves comprise the following:

| Year ended 30 June 2018 | Currency translation Shs '000 | Re-measurement of retirement benefit asset Shs '000 | Total Shs '000 |
|---|---|---|---|
| At start of year | (28,756) | 3,190 | (25,566) |
| Credit to other comprehensive income | (5,824) | 61 | (5,763) |
| **At end of year** | **(34,580)** | **3,251** | **(31,329)** |
| **Year ended 30 June 2019** | | | |
| At start of year | (34,580) | 3,251 | (31,329) |
| Credit to other comprehensive income | (547) | (14,255) | (14,802) |
| **At end of year** | **(35,127)** | **(11,004)** | **(46,131)** |

Other reserves as included above are non-distributable.

## 16 Non-controlling interests

| Group | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| At start of year | 1,821,184 | 1,550,166 |
| Share of profit for the year | 202,667 | 274,121 |
| Share of other comprehensive income | (7,970) | (3,103) |
| **At end of year** | **2,015,881** | **1,821,184** |
| **Summary of Non-controlling interest:** | | |
| **Unga Holdings Limited:** | | |
| 35% Equity interest held by Seaboard Corporation in Unga Holdings Limited | **2,015,881** | **1,821,184** |

# NOTES (continued)

**Summarised financial information on subsidiaries with material non-controlling Interests**

Unga Holdings Limited which has a 35% non-controlling interest operates as a holding company. A summary of its financial performance is set out below:

**Unga Holdings Limited summarised statement of financial position**

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Current assets | 6,638,120 | 6,395,529 |
| Current liabilities | (3,342,861) | (2,956,845) |
| **Total current net assets** | **3,295,259** | **3,438,684** |
| Non-current assets | 3,965,682 | 3,333,004 |
| Non-current liabilities | (1,177,047) | (1,244,070) |
| **Total non-current net assets** | **2,788,635** | **2,088,934** |
| **Total net assets** | **6,083,894** | **5,527,618** |
| **Unga Holdings Limited summarised statement of comprehensive income** | | |
| **Revenue** | **17,895,670** | **19,982,070** |
| Profit before income tax | 644,206 | 1,316,398 |
| Income tax expense | (65,157) | (510,492) |
| Profit after tax | 579,049 | 805,906 |
| Other comprehensive income | (22,772) | (8,866) |
| **Total comprehensive income** | **556,277** | **797,040** |

# NOTES (continued)

## 16 Non-controlling interests (continued)

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| **Unga Holdings Limited summarised cash flows** | | |
| Net cash generated from operating activities | 767,526 | (251,364) |
| Net cash used in investing activities | (955,899) | (878,309) |
| Net cash generated from financing activities | 86,003 | 567,802 |
| **Net decrease in cash and cash equivalent** | **(102,370)** | **(561,871)** |
| Cash and cash equivalent at start of year | 859,673 | 1,424,528 |
| Net increase/(decrease) in cash and cash equivalent | (102,370) | (561,871) |
| Effect of exchange rates | (6,530) | (2,984) |
| **At end of year** | **750,773** | **859,673** |

## 17 Borrowings

| **Group** | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Bank loans | 1,062,865 | 892,189 |
| The borrowings are classified as follows: | | |
| **Current** | | |
| Bank borrowings repayable within 1 year | 260,513 | 76,826 |
| **Non- current** | | |
| Bank borrowings repayable between 2-5 years | 802,352 | 716,667 |
| Bank borrowings repayable after 5 years | - | 98,696 |
| | 802,352 | 815,363 |
| | **1,062,865** | **892,189** |
| **Movement in borrowings:** | | |
| At start of year | 892,189 | 345,125 |
| Received during the year | 364,422 | 742,606 |
| Repaid during the year | (193,746) | (195,542) |
| **At end of year** | **1,062,865** | **892,189** |

# NOTES (continued)

Bank loans comprise the following facilities to the subsidiary Companies;

**Unga Limited**

a) A 6-year term loan facility of USD 7,500,000 taken in 2013 to finance installation of a wheat milling plant in Nairobi (Commercial Street). Interest is charged at 4% above the 3 months LIBOR rate. The loan is repayable in equal instalments and was expected to be fully repaid by June 2019. The outstanding loan at 30 June 2019 was USD 27,729.60 (2018: USD 1,173,563). The effective interest rate on the facility at 30 June 2019 was 6.52% (2018: 5.5%).

b) A 6-year term loan of Shs 860,000,000 taken in 2018 to finance the purchase and construction of a new wheat milling plant in Eldoret. Interest charged is Central Bank Rate (CBR) plus 3% Margin. The facility has a moratorium of 12 months after the first drawdown which was made on 28 April 2018. The loan is repayable in equal installments after the end of the moratorium. The entire loan had been drawn down as at 30 June 2019. The effective interest rate on the facility at 30 June 2019 was 13.5%.

The borrowings are secured by an all assets debenture for Shs 1.885 billion, corporate guarantees by Unga Group Plc of Shs 1.885 billion and legal charges of Shs 1.885 billion over certain properties.

**Unga Farm Care (EA) Limited**

c) A 3-year term loan of Shs 294,000,000 taken in 2019 to finance the purchase and construction of a new soyabean mill. Interest charged is CBR plus 3.1% Margin. The loan is repayable in equal installments. A total of Shs 278,022,763 of the loan amount had been drawn down as at 30 June 2019. The effective interest rate on the facility at 30 June 2019 was 12%.

The borrowing is secured by a specific asset debenture for Shs 294 million on the soybean mill.

# NOTES (continued)

## 18 Deferred income tax

Deferred income tax is made up of the following.

| Group | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Deferred income tax assets | 4,716 | 25,234 |
| Deferred income tax liabilities | (249,095) | (356,202) |
| **Net deferred income tax liabilities** | **(244,379)** | **(330,968)** |

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The movement in the net deferred income tax liabilities is as follows:

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| At start of year | (330,968) | (337,345) |
| Credit to profit or loss | 77,191 | 6,418 |
| Credit to other comprehensive income | 9,398 | (41) |
| **At end of year** | **(244,379)** | **(330,968)** |

| **Group**<br>**Year ended 30 June 2019** | **01.07.2018**<br>**Shs'000** | **Charged/ (credited) to P/L**<br>**Shs'000** | **(Credit) to OCI**<br>**Shs'000** | **30.06.2019**<br>**Shs'000** |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| Property plant and equipment | 517,969 | 320,405 | - | 838,374 |
| Retirement benefits scheme asset | 12,933 | - | (9,398) | 3,535 |
| | 530,902 | 320,405 | (9,398) | 841,909 |
| **Deferred income tax assets** | | | | |
| Unrealized exchange losses | (114,341) | 106,585 | - | (7,756) |
| Other deductible differences | (81,798) | 74,982) | - | (156,780) |
| Tax losses carried forward | (120,551) | (460,028) | - | (580,579) |
| | (316,690) | (428,425) | - | (745,115) |
| Deferred income tax asset not recognised | 116,756 | 30,829 | - | 147,585 |
| **Net deferred income tax** | **330,968** | **(77,191)** | **(9,398)** | **244,379** |

TOUCHING LIVES THROUGH QUALITY NUTRITION

# NOTES (continued)

| Group<br>Year ended 30 June 2018 | 01.07.2017<br>Shs'000 | Charged/ (credited) to P/L<br>Shs'000 | (Credit) to OCI<br>Shs'000 | 30.06.2018<br>Shs'000 |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| Property plant and equipment | 574,252 | (56,283) | - | 517,969 |
| Retirement benefits scheme asset | 12,892 | - | 41 | 12,933 |
| | 587,144 | (56,283) | 41 | 530,902 |
| **Deferred income tax assets** | | | | |
| Unrealized exchange losses | (52,527) | (61,814) | - | (114,341) |
| Other deductible differences | (106,297) | 24,499 | - | (81,798) |
| Tax losses carried forward | (90,975) | (29,576) | - | (120,551) |
| | (249,799) | (66,891) | - | (316,690) |
| Deferred income tax asset not recognised | - | 116,756 | - | 116,756 |
| **Net deferred income tax** | **337,345** | **(6,418)** | **41** | **330,968** |

## 19 Inventories

| Group | 2019<br>Shs'000 | 2018<br>Shs'000 |
|---|---|---|
| Raw materials | 2,140,473 | 2,108,900 |
| Finished products | 355,194 | 320,976 |
| Packing materials | 127,296 | 139,621 |
| Engineering spares | 129,118 | 120,316 |
| | **2,752,081** | **2,689,813** |

Inventories expensed in cost of sales amounted to Shs 14.12 billion (2018: Shs 14.67 billion)

# NOTES (continued)

## 20 Trade and other receivables

| | Goup | | Company | |
|---|---|---|---|---|
| | **2019 Shs'000** | **2018 Shs'000** | **2019 Shs'000** | **2018 Shs'000** |
| Trade receivables | 1,506,654 | 1,316,470 | - | - |
| Less: Provision for expected credit losses | (356,487) | (354,109) | - | - |
| | 1,150,167 | 962,361 | - | - |
| VAT recoverable | 563,016 | 530,389 | - | - |
| Other receivables and prepayments | 829,495 | 797,906 | 27,007 | 44,547 |
| Due from related parties (Note 30) | 474,415 | 522,782 | 96,697 | 98,260 |
| | **3,017,093** | **2,813,438** | **123,704** | **142,807** |

The movements in the provision for expected credit losses on trade and other receivables was as follows:

| | | | | |
|---|---|---|---|---|
| At start of year | 420,148 | 244,738 | - | - |
| Charge to profit or loss in the year | 29,674 | 175,410 | - | - |
| **At end of year** | **449,822** | **420,148** | **-** | **-** |
| Expected credit losses are made up as follows: | | | | |
| Trade receivables | 356,487 | 354,109 | - | - |
| Other receivables | 93,335 | 66,039 | - | - |
| | **449,822** | **420,148** | **-** | - |

## 21 Trade and other payables

| | | | | |
|---|---|---|---|---|
| Trade payables | 617,393 | 889,627 | - | - |
| Other payables and accrued expenses | 1,677,247 | 1,611,579 | 3,142 | 31,980 |
| Due to related parties (Note 30) | 817,373 | 110,263 | 180,105 | 278,792 |
| | **3,112,013** | **2,611,469** | **183,247** | **310,772** |

# NOTES (continued)

## 22 Capital grants

Capital grants relate to amounts received from the Dutch government as a partial funding for the construction of a new fish milling plant at the Dakar road premises. The grant is being amortised over the plant's useful life. The movement in the year is as follows;

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| At start of year | 63,154 | 45,409 |
| Grant received in the year | - | 20,738 |
| Amortisation to profit or loss | (3,324) | (2,993) |
| **At end of year** | **59,830** | **63,154** |

## 23 Property, plant and equipment

| **Year ended 30 June 2018** | Buildings Shs'000 | Plant and equipment Shs'000 | Motor vehicles Shs'000 | Work in progress Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| At start of the year | 540,926 | 1,940,690 | 61,895 | 68,583 | 2,612,094 |
| Currency translation differences | - | 422 | - | - | 422 |
| Additions | 38,410 | 51,566 | 37,698 | 748,144 | 875,818 |
| Transfers | 7,191 | 21,512 | - | (28,703) | - |
| Disposals | - | (704) | - | - | (704) |
| Depreciation charge | (28,048) | (204,886) | (29,738) | - | (262,672) |
| Provision for impairment | - | (30,582) | (96) | - | (30,678) |
| **Closing net carrying amount** | **558,479** | **1,778,018** | **69,759** | **788,024** | **3,194,280** |
| **At 30 June 2018** | | | | | |
| Cost | 664,117 | 2,752,983 | 313,034 | 788,024 | 4,518,158 |
| Accumulated depreciation-restated | (105,638) | (974,965) | (243,275) | - | (1,323,878) |
| **Net carrying amount** | **558,479** | **1,778,018** | **69,759** | **788,024** | **3,194,280** |

# NOTES (continued)

## 23 Property, plant and equipment (continued)

**Year ended 30 June 2019**

| | Buildings Shs'000 | Plant and equipment Shs'000 | Motor vehicles Shs'000 | Work in progress Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| At start of the year | 558,479 | 1,778,018 | 69,759 | 788,024 | 3,194,280 |
| Currency translation differences | - | (512) | - | - | (512) |
| Additions | 157,844 | 687,899 | 20,186 | 8 | 865,937 |
| Transfers | 172,362 | 577,856 | - | (750,218) | - |
| Transfer to leases (Note 24) | - | - | - | (15,690) | (15,690) |
| Disposals | - | (12,542) | - | - | (12,542) |
| Depreciation charge | (22,787) | (207,472) | (33,829) | - | (264,088) |
| **Closing net carrying amount** | **865,898** | **2,823,247** | **56,116** | **22,124** | **3,767,385** |
| **At 30 June 2019** | | | | | |
| Cost | 978,143 | 3,709,161 | 213,899 | 22,124 | 4,923,327 |
| Currency translation differences | - | (512) | - | - | (512) |
| Accumulated depreciation | (112,245) | (885,402) | (157,783) | - | (1,155,430) |
| **Net carrying amount** | **865,898** | **2,823,247** | **56,116** | **22,124** | **3,767,385** |

The Group has pledged assets with net book value of Shs 182,686,489 (2018: Shs 217,307,932) to secure bank borrowings (see Note 17).

# NOTES (continued)

## 24 Leases

*(i) Right-of-use assets*

| Year ended 30 June 2019 | Leasehold land Shs'000 | Warehouse Shs'000 | Motor vehicles Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At start of year | 55,978 | - | - | 55,978 |
| Additions | 79,562 | - | - | 79,562 |
| Adoption of IFRS 16 | - | 77,406 | 54,670 | 132,076 |
| Transfer from WIP | 15,690 | - | - | 15,690 |
| | 151,230 | 77,406 | 54,670 | 283,306 |
| **Amortisation** | | | | |
| At start of year | 37,642 | - | - | 37,642 |
| Charge for the year | 404 | 37,011 | 33,643 | 71,058 |
| At end of year | 38,046 | 37,011 | 33,643 | 108,700 |
| **Carrying amount at end of year** | **113,184** | **40,395** | **21,027** | **174,606** |

| Year ended 30 June 2018 | Prepaid operating lease rentals Shs'000 |
|---|---|
| At start of year | 55,978 |
| | 55,978 |
| **Amortisation** | |
| At start of year | 28,619 |
| Currency translation differences | (1,385) |
| Write-offs | 7,063 |
| Charge for the year | 3,327 |
| At end of year | 37,624 |
| **Carrying amount at end of year** | **18,354** |

# NOTES (continued)

## 24 Leases (continued)

*(i) Right-of-use assets (continued)*

The operating lease prepayment relates to leasehold land. The leasehold land was revalued as at 28 February 2018 by Tysons Limited on an open market value basis for existing use at Shs 2.65 billion.

The Group has pledged leasehold land with a net book value of 29,893,000(2018– Shs 16,512,750) as collateral security for bank borrowings (see Note 17).

*(ii) Lease liabilities*

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Current | 34,652 | - |
| Non-current | 34,111 | - |
| | **68,763** | **-** |
| *(iii) Prepaid operating lease rentals* | | |
| Adoption of IFRS 16 | 132,076 | - |
| Finance charge | 21,398 | - |
| Payments in the year | (84,711) | - |
| **At end of year** | **68,763** | **-** |

## 25 Intangible assets

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Computer software | 22,723 | 74,300 |
| | **22,723** | **74,300** |
| **Computer software** | | |
| **Group** | | |
| **Cost** | | |
| At start of year | 368,912 | 352,366 |
| Additions | 19,496 | 16,525 |
| **At end of year** | **388,408** | **368,891** |
| **Amortisation** | | |
| At start of year | 294,612 | 186,022 |
| Amortisation for the year | 71,073 | 108,569 |
| **At end of year** | **365,685** | **294,591** |
| **Net book value** | **22,723** | **74,300** |

# NOTES (continued)

## 26 Investment in subsidiaries – Company

**Unquoted investment at cost in wholly owned subsidiary**

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Unga Investments Limited | 1,297,335 | 1,297,335 |

Details of the Company's subsidiaries are as follows:

| Company name | Principal place of business | Principal activity | % Interest held | Share capital Shs'000 |
|---|---|---|---|---|
| Unga Investments Limited | Kenya | Operates as a holding and an investment company | 100% | 22,200 |

Unga Investments Limited has a 65% holding in its subsidiary, Unga Holdings Limited which operates as a holding company in Kenya and has the following subsidiaries

| Company name | Principal place of business | Principal activity | % Interest held | Share capital Shs'000 |
|---|---|---|---|---|
| Unga Limited | Kenya | Milling of wheat and maize | 100% | 220,000 |
| Unga Farm Care (EA) Limited | Kenya | Manufacture of animal nutrition products and distribution of animal health products | 100% | 22,520 |
| Unga Feeds Limited | Kenya | Dormant company | 100% | 42,300 |
| Unga Foods Limited | Kenya | Dormant company | 100% | 15,400 |
| Unga Millers (U) Limited | Uganda | Milling of wheat and maize, and distribution of animal nutrition products | 100% | 7,280 |
| Ennsvalley Bakery Limited | Kenya | Manufacture and sale of cakes, roles, breads and pastries | 100% | 250 |

# NOTES (continued)

## 27 Post-employment benefits obligation

The group had the following post-employment benefits obligations as at year end;

| | 2019<br>Shs'000 | 2018<br>Shs'000 |
|---|---|---|
| **Assets** | | |
| Retirement benefits scheme | - | 24,674 |
| **Liabilities** | | |
| Service gratuity scheme | 9,469 | 9,351 |
| Retirement benefits scheme | 22,191 | - |
| | **31,660** | **9,351** |

### Service gratuity scheme

The Group operates an unfunded post-employment benefit plan which provides service gratuity to its unionised employees based on final salary and years of service. The movement in the obligation based on past service cost is as follows;

| | 2019 | 2018 |
|---|---|---|
| At start of year | 9,351 | 17,151 |
| Charge/ (credit) to profit or loss | 2,712 | (7,800) |
| Payments in the year | (2,594) | - |
| **At end of year** | **9,469** | **9,351** |

### Retirement benefits scheme

The Group operates a contributory defined benefits pension plan for employees of Unga Limited and Unga Farm Care (EA) Limited. The retirements benefits scheme asset represents the actuarial allocation of the surplus of the fair value of the scheme assets over the value of past service pension obligations after applying an asset ceiling to the Group. An asset ceiling has been applied only to recognise the benefit arising from reduced employer contributions available to the Group as a result of the scheme being in an actuarial surplus position. No asset ceiling has been applied in 2019 as the scheme is in a net asset obligation position.

# NOTES (continued)

The amount included in the statement of financial position arising from the company's obligation in respect of this defined benefits pension scheme is arrived at as follows:

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Present value of funded obligations | 838,772 | 668,155 |
| Fair value of plan assets | (816,581) | (717,502) |
| Deficit/ (surplus) on funded plan | 22,191 | (49,347) |
| Impact of asset ceiling | - | 24,673 |
| Retirement benefit scheme obligation/(asset) recognised in the statement of financial position | 22,191 | (24,674) |

The movement in the retirement benefit scheme asset over the year was as follows:

| Year ended 30 June 2019 | Present value of obligation Shs'000 | Fair value of plan assets Shs'000 | Total Shs'000 | Impact of asset ceiling Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| At start of year | 668,155 | (717,502) | (49,347) | 24,673 | (24,674) |
| Current service cost | 49,886 | - | 49,886 | - | 49,886 |
| Interest expense/ (income) | 97,387 | (97,753) | (366) | 3,282 | 2,916 |
| Charge to profit or loss | 147,273 | (97,753) | 49,520 | 3,282 | 52,802 |
| **Re measurements:** | | | | | |
| Return on plan assets | - | 38,184 | 38,184 | - | 38,184 |
| Change in assumptions | 21,009 | - | 21,009 | - | 21,009 |
| Change in asset ceiling | | | | (27,955) | (27,955) |
| Charge to other comprehensive income | 21,009 | 38,184 | 59,193 | (27,955) | 31,328 |
| **Contributions:** | | | | | |
| Employee | 40,166 | (40,166) | - | - | - |
| Employer | - | (37,175) | (37,175) | - | (37,175) |
| Payments from plan: | (37,831) | 37,831 | - | - | - |
| | 2,335 | (39,510) | (37,175) | - | (37,175) |
| **At end of year** | **838,772** | **(816,581)** | **22,191** | **-** | **22,191** |

# NOTES (continued)

## 27 Post-employment benefits obligation (continued)

Retirement benefits scheme (continued)

| Year ended 30 June 2018 | Present value of Obligation Shs'000 | Fair value of plan assets Shs'000 | Total Shs'000 | Impact of asset ceiling Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| At start of year | 562,773 | (597,474) | (34,701) | 16,764 | (17,937) |
| Current service cost | 45,134 | - | 45,134 | - | 45,134 |
| Interest expense/ (income) | 77,644 | (82,593) | (4,949) | 2,265 | (2,684) |
| Charge to profit or loss | 122,778 | (82,593) | 40,185 | 2,265 | 42,450 |
| Re measurements: | | | | | |
| Return on plan assets | - | (4,239) | (4,239) | - | (4,239) |
| Change in assumptions | (1,541) | - | (1,541) | - | (1,541) |
| Change in asset ceiling | - | - | - | 5,644 | 5,644 |
| Charge to other comprehensive income | (1,541) | (4,239) | (5,780) | 5,644 | (136) |
| Contributions: | | | | | |
| Employee | 37,675 | (37,675) | - | - | - |
| Employer | - | (49,051) | (49,051) | - | (49,051) |
| Payments from plan | (53,530) | 53,530 | - | - | - |
| | (15,855) | (33,196) | (49,051) | | (49,051) |
| **At end of year** | **668,155** | **(717,502)** | **(49,347)** | **24,673** | **(24,674)** |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

| At 30 June 2019<br>Discount rate | At current discount rate Shs '000 | 1% Increase Shs '000 | 1% Decrease Shs '000 |
|---|---|---|---|
| Present value of obligation | 838.8 | 847.2 | 830.5 |
| **At 30 June 2018** | | | |
| Present value of obligation | 668.2 | 674.8 | 661.6 |

# NOTES (continued)

The significant actuarial assumptions were as follows:

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Discount rate | 12.9% | 13.3% |
| Rate of salary escalation | 10% | 10% |
| Rate of pension increases | 0% | 0% |

Since the bulk of the benefits payable under the scheme are salary related and there are no pensions paid from the scheme, the sensitivity of the liability to a change in the salary escalation assumption is expected to be consistent with the sensitivity to the discount rates.

The plan assets are comprised of the following;

| | 2019 Shs'000 | 2019 % | 2018 Shs'000 | 2018 % |
|---|---|---|---|---|
| Quoted equities | 201,696 | 25% | 251,126 | 35% |
| Offshore investments | 25,314 | 3% | 28,700 | 4% |
| Government bonds | 561,808 | 69% | 301,351 | 42% |
| Commercial paper and corporate bonds | 14,698 | 2% | 50,225 | 7% |
| Fixed and time deposits | 17,148 | 2% | 78,925 | 11% |
| Net current assets/ (liabilities) | (4,083) | (0.5%) | 7,175 | 1% |
| **Total** | **816,581** | **100%** | **717,502** | **100%** |

Through its defined benefit pension plans and, the Group is exposed to a number of risks, the most significant of which are detailed below:

*Asset volatility*
The plan liabilities are calculated using a discount rate set with reference to treasury bonds yields; if plan assets underperform this yield, this will create a deficit. The plan assets currently exceed the liabilities and this risk is therefore not considered significant.

*Changes in bond yields*
A decrease in treasury bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

# NOTES (continued)

## 28 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations:

| **Group** | **2019 Shs'000** | **2018 Shs'000** |
|---|---:|---:|
| Profit before income tax | 615,202 | 1,293,695 |
| Adjustments for: | | |
| Depreciation (Note 23) | 264,088 | 262,672 |
| Asset write-off (Note 23) | - | 30,678 |
| Amortisation of leases (Notes 24) | 71,058 | 3,327 |
| Write-off of prepaid operating lease rentals (Note 24) | - | 7,063 |
| Interest paid | 113,046 | 87,131 |
| Finance charge on leases | 21,398 | - |
| Amortisation of intangible assets (Note 25) | 71,073 | 108,569 |
| Amortisation of capital grant (Note 22) | (3,324) | (2,993) |
| Gain on disposal of property, plant and equipment | (9,002) | (5,219) |
| Post-employment benefits obligation | (15,401) | (7,800) |
| Working capital changes: | | |
| -inventories | (62,268) | (368,006) |
| -trade and other receivables | (203,655) | (372,739) |
| -trade and other payables | 500,544 | (1,152,388) |
| **Cash generated from operations** | **1,362,759** | **(116,010)** |
| **Company** | | |
| Loss before income tax | (41,895) | (21,549) |
| Adjustments for: | | |
| Working capital changes: | | |
| -trade and other receivables | 19,103 | (7,862) |
| -trade and other payables | | |
| | (127,527) | 43,674 |
| **Cash generated from operations** | **(150,319)** | **14,263** |

# NOTES (continued)

b) For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the bank repayable within three months from the date of advance.

| **Group** | **2019 Shs'000** | **2018 Shs'000** |
|---|---|---|
| Bank balances | 753,106 | 860,024 |
| Call deposits | 87,809 | 226,377 |
| Cash balances | 423 | 2,054 |
| **Cash and cash equivalents** | **841,338** | **1,088,455** |
| **Company** | | |
| Bank balances | 2,756 | 2,405 |
| Call deposits | - | 226,377 |
| | **2,756** | **228,782** |

The effective interest rate on call deposit at 30 June 2019 was 9% (2018: 9.25%)

## 29 Capital commitments

| | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Authorised but not contracted for | 446,041 | 608,050 |
| | **446,041** | **608,050** |

The bulk of the capital commitments relate to the planned installation of a conveyors and rehabilitation of silos

## 30 Related party transactions

The Company is listed on the Nairobi Securities Exchange and the shares are widely held.

During the year the following transactions were entered into with related parties:

*i) Sale of goods and services*

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2019 Shs'000** | **2018 Shs'000** | **2019 Shs'000** | **2018% Shs'000** |
| Sale of finished goods – Kenchic Limited | 2,378,356 | 2,299,668 | - | - |

# NOTES (continued)

## 30 Related party transactions (continued)

*ii) Purchase of goods and services from affiliate and related parties*

| Group | 2019 Shs'000 | 2018 Shs'000 |
|---|---|---|
| Raw material purchases – Seaboard Overseas Limited | 2,849,106 | 2,455,164 |
| Other expenses – Seaboard Overseas Management Company | 65,195 | 47,506 |
| Purchase of equipment and spares – Seaboard Overseas Group | 370,829 | 42,520 |
| Interest charged on trade finance – Seaboard Overseas Limited | 36,211 | 72,421 |
| | **3,321,341** | **2,617,611** |

Seaboard is affiliated by virtue of being part of the non-controlling interest as set out in note 18. Seaboard Corporation is a company with significant shareholding in the parent company. Seaboard Overseas Limited, Seaboard Overseas Group and Seaboard Overseas Management Company are subsidiaries of Seaboard Corporation.

The group is also related to some of its customers by virtue of common shareholding. These are Kenchic Limited and NAS Holdings Limited and its affiliates.

The company is also related to one of its bankers, NIC Bank Limited, by virtue of common directorships.

# NOTES (continued)

*iii) Key management compensation*

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 Shs'000 | 2018 Shs'000 | 2019 Shs'000 | 2018% Shs'000 |
| Salaries and other short-term employment benefits | 152,401 | 176,155 | - | - |
| *iv) Directors' remuneration* | | | | |
| Fees for services as director | 16,344 | 16,175 | 16,344 | 16,175 |
| Other emoluments | 44,389 | 47,159 | - | - |
| | **60,733** | **63,334** | **16,344** | **16,175** |
| *v) Due from related companies* | | | | |
| Unga Investments Limited | - | - | 42,902 | 41,564 |
| Unga Feeds Limited | - | - | 7,000 | 7,000 |
| Unga Holdings Limited | - | - | 46,795 | 49,696 |
| NAS Holdings Limited and its affiliates | - | 655 | - | - |
| Kenchic Limited | 474,415 | 522,127 | - | - |
| | **474,415** | **522,782** | **96,697** | **98,260** |
| *vi) Due to related companies* | | | | |
| Unga Limited | - | - | 140,024 | 141,573 |
| Unga Investments Limited | - | - | - | 136,886 |
| Unga Farm Care (E.A) Limited | - | - | 40,081 | 333 |
| Seaboard Corporation subsidiaries | 817,373 | 105,055 | - | - |
| NAS Holdings Limited and its affiliates | - | 5,208 | - | - |
| | **817,373** | **110,263** | **180,105** | **278,792** |
| *vii) Bank balances with related parties* | | | | |
| NIC Bank Limited | 325,648 | 613,400 | - | 231,827 |

# OTHER INFORMATION

## ANNUAL GENERAL MEETING NOTICE

**UNGA GROUP Plc ("the Company")**

**NOTICE IS HEREBY GIVEN** that the Ninety Second (92nd) Annual General Meeting of the Company will be held at the Kenya School of Government (next to the University of Nairobi – Lower Kabete Campus), Lower Kabete Road, Lower Kabete, Kiambu County, on Thursday, 5 December 2019 at 10:00 a.m. for the following purposes:-

**ORDINARY BUSINESS**

1. To read the notice convening the meeting.
2. To confirm the minutes of the Ninty First (91st) Annual General Meeting held on Thursday, 6 December 2018.
3. To receive the Chairman's report.
4. To receive and adopt the Consolidated Audited Financial Statements for the financial year ended 30 June 2019 together with the reports of the Directors and the Auditors thereon.
5. To consider and approve a first and final dividend of KES 0.50 per share for the year ended 30 June 2019 payable on or about Wednesday, 15 January 2020 to the shareholders on the Register of Members at the close of business on Thursday, 5 December 2019, and to approve the closure of the Register of Members for one day from the close of business on Thursday, 5 December 2019 to close of business on Friday, 6 December 2019 for the purpose of processing the dividend.
6. Election of Directors:-
   a) In accordance with the provisions of Articles 88 and 89 of the Company's Articles of Association:-
      i) Mr Jinaro Kipkemoi Kibet retires at this meeting and being eligible, offers himself for re-election.
      ii) Mr Patrick O Obath retires at this meeting and being eligible, offers himself for re-election.
   b) In accordance with the provisions of the Code of Corporate Governance practices for issuers of securities to the public 2015, Mrs Isabella Ochola Wilson has attained the retirement age of 70 years and being eligible, offers herself for re-election.
   c) In accordance to the provisions of Section 769 of the Companies Act 2015, the following directors being members of the Board Audit & Risk Committee be elected to continue to serve as members of the said committee:-
      i) Ms Shilpa Haria;
      ii) Mr Jinaro Kipkemoi Kibet;
      iii) Mr Andrew Stewart Ndegwa; and
      iv) Mr Vitalis Ondeke Ojode
7. Directors' Remuneration:-
   a) To approve the Directors' Remuneration Policy as shown in the audited Financial Statements for the year ended 30 June 2019.
   b) To approve the Directors' Remuneration Report as shown in the audited Financial Statements for the year ended 30 June 2019.
8. To appoint Messrs PricewaterhouseCoopers (PwC) as Auditors of the Company in accordance with the provisions of Section 721 (2) of the Companies Act 2015 and to authorise the Directors to fix their remuneration for the ensuing financial year in accordance with the provisions of Section 724 (1) of the Companies Act 2015.
9. Any Other Business of which due notice has been received.

**BY ORDER OF THE BOARD**

WINNIEFRED N JUMBA
COMPANY SECRETARY
13 November 2019

# OTHER INFORMATION (continued)

**Notes:**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company, this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. The proxy form can be obtained from the Company's website (www.unga-group.com), at the registered office of the Company, Ngano House, Commercial Street, Industrial Area, Nairobi or from the Registrars - Custody & Registrars, 6th Floor Bruce House, Standard Street, Nairobi.
4. To be valid, a form of proxy, which is provided with this report, must be duly completed by the member and must be lodged at the Company's Offices, Ngano House, Commercial Street, Industrial Area, P O Box 30096, 00100-Nairobi, or posted in time to reach not later than 10:30 a.m. on Tuesday, 3 December 2019, in an envelope marked "AGM". Duly signed proxy forms may also be emailed to proxy@candrgroup.co.ke in PDF format.
5. In accordance with Article 37.3 of the Company's Articles of Association, a copy of the entire Annual Report and Financial Statements may be viewed and/or obtained from the Company's website (www.unga-group.com) as provided under the Companies Act, 2015. Hard copies of the Annual Report and Financial Statements may also be collected at the registered office of the Company, Ngano House, Commercial Street, Industrial Area, Nairobi or from the Registrars- Custody & Registrars, 6th Floor Bruce House, Standard Street, Nairobi.
6. Subject to the shareholders' approval, the Register of Members will be closed from the close of business on Thursday, 5 December 2019 to close of business on Friday, 6 December 2019 for the purpose of processing the dividend.
7. All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date.

   Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

   **Custody & Registrars Services Ltd**
   **6th Floor, Bruce House**
   **Standard Street**
   **Nairobi**

   **Tel: (+254-20) 2230518/271/493/488**
   **Mobile: 0726 971 599/0737 095 124**
   **Email: crs@candrgroup.co.ke**

8. All shareholders of the Company are reminded to update their corresponding postal addresses and profile details with their respective stock brokers to avoid any inconveniences relating to future communications with the Company.

# OTHER INFORMATION (continued)

## FORM OF PROXY

I/WE..........................................................................................................................................................................................

of.............................................................................................................................................. being a member/members of Unga

Group Plc, hereby appoint.........................................................................................................................................................

and failing him/her......................................................................................................................................................................

whom failing, the duly appointed Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Ninety Second (92nd) Annual General meeting of the Company to be held on Thursday, 5 December 2019 at 10:00 a.m. and at any adjournment thereof.

I authorise my proxy to vote as follows on the resolutions for the meeting:

| ITEM | YES | NO |
|---|---|---|
| 2 | | |
| 4 | | |
| 5 | | |
| 6(a) | | |
| (b) | | |
| (c) | | |
| 7(a) | | |
| (b) | | |
| 8 | | |

As witness my/our hand this ..............................................................day of ..............................................................2019

..................................................
Signed

**Notes:**
1. If you are unable to attend this meeting personally, this form should be completed and returned to the Company Secretary, Unga Group Plc, P O Box 30096, 00100 Nairobi, to reach her no later than 48 hours before the time appointed for the meeting.
2. A person appointed to act as a proxy need not also be a member of the Company.
3. If the appointer is a corporation, this form must be under its common seal or under the hand of an officer or an attorney duly authorised in writing.

**1908 - 2019**

*Nutrition for Life*