

Livingstone Associates

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31 October 2018

"Bearer to await Acknowledgement"

Mr Paul Muthaura
The Chief Executive
Capital Markets Authority
Embankment Plaza, 3rd Floor
Longonot Road, Upperhill
Nairobi

Dear Mr Muthaura,

Unga Group Plc ("the Company")

We enclose the following documents in relation to the above Company:-

- a) The executed audited financial statement for the financial year ended 30 June 2018;
- b) The executed Corporate Governance Reporting Template for Issuers of Security to the Public with respect to the financial year ended 30 June 2018; and
- c) Copies of the signed opinion with respect to the Company's Legal and Governance Audit for the financial year ended 31 June 2018.

Kindly acknowledge receipt on the duplicate of this letter.

Yours sincerely,

Winnie Jumba
Company Secretary

WNJ/kmg

Enclosures

MANAGEMENT
Chief Executive
Director - MO ✓
Director - R P & S
Director - C S
Manager - S P
Manager - Derivatives
HCC
MLA
HOP
MCA

CORPORATE GOVERNANCE REPORTING TEMPLATE FOR ISSUERS OF SECURITIES TO THE PUBLIC

TO BE FILLED IN LINE WITH THE REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE PRACTICES FOR ISSUERS OF SECURITIES TO THE PUBLIC, 2015

Company Name (in full)

Unga Group Plc

Reviewer's Name

Stock Code: UNGA

Sector: MANUFACTURING & ALLIED

Year - 2018

Date of Financial Year End: 30 JUNE 2018

Chairman Signature

CEO Signature

Company Secretary Signature

Company market to book ratio at end of financial year

No of outstanding shares at end of financial year

Closing price of stock at end of financial year

Net sales as per Income Statement at end of financial year

Net profit as per Income Statement at end of financial year

Total debt (short and long term) as per Balance Sheet at end of financial year

Total equity as per Balance Sheet at end of financial year

Total no. of Board members at end of financial year

No. of independent directors at end of financial year

No. of non-executive directors at end of financial year

Company Details to be Provided:

0.54

75,706,986 ordinary shares of Kshs 5/- each

39.25

Kshs 19,982,070,000/-

Kshs 783,203,000/-

Kshs 892,189,000/-

Kshs 5,609,075,000/-

8 substantive directors and 1 Alternate director

2

6

Mandatory or
'apply or
explain'

Part No.

Question

Kenya Code Reference

Application - FA, PA or NA - See Notes 1, 2,
3&4

Application or Explanation - Note 3 & 4
Source of Information

	A	INTRODUCTION				
M	A.1	Has the Company developed and published a Board Charter which is periodically reviewed and which sets out the Board responsibility for internal control?	1.1.2, 2.6.2, 6.3.2	FA	The Company has developed and published a Board charter that was adopted on 23 June 2016. The Charter is continually reviewed in line with Section 5.17 of the charter which provides that the Board may review the charter every two years or at any other time as would be deemed necessary. The Board's responsibility for internal control is provided for in Section 3.1 of the Charter which mandates the Board to 'ensure that appropriate and effective risk management and internal control processes are operating in the Company' (bullet 10). Part of the mandate of the Audit Committee which reports to the Board is "Assisting the Board in overseeing the Company's internal audit process and adequacy of internal controls."	Board Charter sections 5.17; Section 3 and 5.5 (a) (bullet 2)
M	A.2	Do the Board Charter or Company documents distinguish the responsibilities of the Board from management in line with Code requirements?	1.1.2, 2.3.1, 2.3.2, 2.6.2	FA	Various Company documents clearly distinguish the responsibilities of the Board from those of Management in the following ways: - The Charter outlines the specific roles and responsibilities of the Board which are separate from those of Management. - Letters of Appointment have been issued to members of the Board set out the roles of the Directors that are clearly set out as separate from those of Management. - Over and above the Charter, the Company has the Code of Ethics and Conduct and the two are separate documents. Part A of the Code of Ethics specifically provides for the Code of Conduct for Directors that is separate and distinct from that of employees.	Board Charter- Sections 3.1, 5.1.3 and 5.11, Part A of the Code of Conduct and Ethics.

A or L	A.3	Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the Company?	1.6	FA	The Board Charter sets out a statement confirming the responsibility of Board members to apply corporate governance policies and procedures in the oversight the Company's operations. This is contained in the preamble of the Board Charter, which outlines the importance of corporate governance.	Additionally, the Statement of Purpose contained in the Board Charter, "The Board of Directors of Unga Group is the body charged with the responsibility of ensuring that the Company is managed in a sound manner that fosters increased business profitability within an environment of good corporate governance." confirms the responsibility of the Board for the application of good corporate governance policies and procedures.	
M	A.4	How has the Board ensured all directors, CEOs and management are fully aware of the requirements of this Code?	1.6	FA	The Board has ensured that the Directors and Senior Leadership Team are aware of the requirements of the Code by ensuring them onto the Master Class that was facilitated by CHA and IFC on the implementation of the Code during the last financial year.	Additional training needs will be determined and implemented in line with the concluded Board Evaluation Exercise.	The Board has also enlisted the support of an qualified Company Secretary to ensure that the operations of the Board are within the provision of the Code.
M	A.5	Do Company documents indicate the role of the Board in developing and monitoring the Company strategy?	Part II - Overview, 2.3	FA	Indicated in the Board Charter, the Financial report under the Governance Statement, in the Strategy plan document. The Board Charter provides that the Board is responsible for reviewing and approving the business strategic objectives, providing the necessary leadership and oversight to the management of the Company, in this regard, the Board is therefore a key player in the Company's system of Corporate Governance and is ultimately accountable and responsible for the performance of the business.	The Charter further provides as part of the roles and responsibilities of the Group Managing Director, to develop together with the Board the Company's strategic and business plans. The Board has an annual strategy retreat where Management of the Company engage the directors on the Company's strategy.	
A or L	A.6	Does the Company strategy promote sustainability of the Company?	2.3.6	FA	The Company strategy promotes various sustainability initiatives that are incorporated in the Company's Annual Report. The Company has embraced a fairly philosophy which is a continual improvement		
M	A.7	Are all Board committees governed by a written charter/terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?	2.2.2	FA	The Board's 4 committees are governed by clear terms of reference that are annexed to the Board Charter and set out the mandate and operations of the committees. The Committees include the Board Audit Committee (BAC), the Board Human Resources Committee (BHRIC) and the Board Investments and Operations Committee (BIOC).		
							- Terms of Reference for BAC. - Terms of Reference for the BHRIC. - Terms of Reference for the BIOC.

	B	BOARD OPERATIONS and CONTROL				
M	B.1	Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?	2.1.2, 2.2.2	FA	The Board has established a Nominations and Remunerations Committee in line with Section 5.5. of the Board Charter. The Committee is currently comprised of 4 NEDs out of whom one is an independent Director. These include Mr Patrick Obath (Chairman) (Independent), Mrs Isabela Ochola-Wilson, Mr Andrew Nidegwa and Mr Jinaro Kibet all of whom are non-executive directors.	Section 5.5 of the Board Charter and Terms of reference (TOR) of the BNRC.
M	B.2	Is the chairperson of the Nomination Committee an independent director?	2.2.3	FA	Mr Patrick Obath is an independent and non-executive director.	Mr Patrick Obath was appointed as the Chairman of the BNRC as recorded in the minutes of the Board meeting held on 22 June 2017 (Min 14/2017).
M	B.3	Has the Board adopted and published procedures for nomination and appointment of new Board members?	2.1.1, 2.1.7	FA	Yes, the Board has adopted and published procedures for the nomination and appointment of new Board members. The procedures are Annexed to the Terms of Reference of the BNRC and they outline the Procedures for Appointment of a Director. The Annexure was approved at a Board meeting held on 29 September 2016.	Annexure to the BNRC Terms of Reference
M	B.4	Is the Board size adequate for the exercise of the Company business?	2.1.4	FA	The Board size is adequate to support the Company's business and is provided in the Company's Articles of Association (AoA) The Articles provide that the number of directors excluding the alternate directors shall not be less than 5 nor more than 10. The Board currently has 8 directors and 1 alternate director. The skill set is diverse and adequately addresses the Company business.	Company Articles of Association Article 63.
A or E	B.5	Has the Board adopted a policy to ensure the achievement of diversity (including age, race and gender) in its composition?	2.1.2, 2.1.3, 2.1.5, 2.5.1	FA	Yes, the Board has published an annexure to the BNRC Terms of Reference to ensure the achievement of diversity in its composition. It provides that in the appointment of a Director, the Board shall be guided by the following pillars:- a) The Company's Strategy; b) Qualifications; c) Diversity; d) Succession Planning; e) Recommendations of continuous Board Evaluations; f) Regulatory Requirements; and g) Interests in serving on the Board.	Annexure to the BNRC Terms of Reference

M	8.6	Do the Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?	2.2.1	FA	Yes. The Board comprises of the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the current Board of directors include Business Management, Manufacturing, Banking and Finance, Marketing, Horticulture, Engineering, Accounting, Legal and Ethics among others. The Board's independence is ensured in that it comprises of 7 NEDs 2 of whom are independent directors.	Directors curriculum vitae as summarised on page 20/21 of the 2017 Annual Report that can be downloaded from the Company's website.
M	8.7	Has the Board adopted and applied a policy limiting the number of Board positions each Board member may hold at any one time?	2.1.6	FA	Yes. The Board has applied the provisions of the charter that limits the number of Board positions that each Board member may hold at any one time and is in cognizance of the guidelines issued by the CMA. To that end, no Director holds such a role in more than three public listed companies, the Executive Director does not serve as a Director of another listed Company and the Chairperson does not hold such position.	Board charter Section 5.1.5
M	8.8	Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?	2.1.6, 2.1.7	FA	There is one alternate director: Mr Patrick Kithinji Mugambi (alternate to Mr Andrew Stewart Mwangi Ndegwa) who was appointed on 26 June 2015. His participation on the Board is in line with the provisions of the Code.	Register of Directors; 2017 Annual return
M	8.9	Are independent directors at least one-third of the total number of Board members?	1.1.2, 2.1.3, 2.4.1	PA	The Board currently has 2 independent directors out of the 8 members of the Board. The Board is cognizant that the current number of independent directors in the Board needs to be increased. The Board has commenced the process of reviewing the current Board composition, with the intention of reaching an optimum position that will facilitate the increase of the number of independent directors to the minimum provided by the Code. The Board desires that this matter be resolved within the next year.	Register of Directors; 2017 Annual return
A or E	8.10	Does the Board have policies and procedures to annually assess the independence of independent Board members?	2.4.1	FA	Yes, the Board has the following procedures to ensure the independence of independent Board members:- - That Directors declare any conflict of interest at every Board meeting to confirm their independence on the matters lined up for discussion. - Independent Directors hold office until they are scheduled for rotation at an annual general meeting where they retire and become available for re-election. The Board acknowledges that the independent Director position is not permanent and provides that the Independent Directors serve only as long as they add value to the Board and an Independent Director's ability to continue to contribute to the Board is examined each time s/he is considered for re-election. - The Directors executed a declaration of independence form. The plan is to make it an annual requirement.	Board charter Section 5.1.7

M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2	PA	Yes. The Charter provides that an Independent Director shall have a fixed tenure of office and shall be required to retire from the Board at regular intervals, at least once every three years, with a provision that they could offer themselves for re-election based on a pre-determined policy and criteria. The Code restricts that an independent Director can only be reappointed to the Board for up to nine (9) years. The Board desires that this matter be resolved within the next 2 years.	Board charter Section 5.1.7.
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M	B.12	Is the Board comprised of a majority of non-executive Board members?	2.1.3	FA	Yes - The Board currently has 8 directors- 7 are non-executive and 1 is an executive director.	Register of Directors; 2017 Annual return
M	B.13	How does the Board ensure a smooth transition of Board members?	2.1.8	FA	The Company's Articles of Association provides for procedures that could be followed to facilitate exits in the Board as it requires for a third of the Board to retire at every Annual General Meeting. - The Annexure to the BNRC Terms of Reference further provide for a stepped approach to the appointment of a Director to ensure a smooth transition. - The Company has implemented a Board induction programme to introduce new Directors to the Board and settle them into their respective roles.	Articles of Association, Article 82; Board Charter, Section 5.1.4; and The Annexure to the BNRC Terms of Reference.
M	B.14	Has the Board established an effective Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7	FA	Yes. The Board has established a Board Audit Committee which comprises of an independent director and non-executive directors. The Chairperson of the Committee is an independent and non-executive director and her professional background is in the area of accounting and finance (Fellow of Chartered Association of Certified Accountants and CPA(k)). The committee has its separate written terms of reference. It has also established an internal audit function.	Board charter Section 5.5 ; Terms of Reference of the Board Audit Committee
M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3	FA	Yes. The functions of the Chairman and the Chief Executive Officer are exercised by different individuals. The Charter outlines the role of each position, separately.	Board Charter Sections 3.2.1 and 3.2.2
M	B.16	Is the Chairman of the Board a non-executive Board member?	2.3.4	FA	Yes. The Chairman of the Board is a non-executive Board member in line with the provisions of the Code and the Board Charter	Board Charter Section 3.2.1
A or E	B.17	Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?	2.3.5	FA	Yes. The Board has provided for policy and procedures that allow its Directors access to independent financial, legal and such other professional advice as s/he may require for the better execution of his/her mandate as Director of the Company in line with the provisions of the Board Charter. The Board also has structured Board and Board Committees (Board nominations and Remuneration, Board Human Resources, Board Audit and Risk Committee, Board Investment and Operations Committee). Board Special Project Committees, the Board	Board Charter Section 4.12; Committee ToRs Reports included in the Board Papers

M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.5	FA	Yes. The Board has a policy and processes in place to manage conflict of interest. Directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to any Director's attention, whether direct or indirect at every Board or Committee meeting. This is implemented in the following ways:- - All business transactions with all parties, directors or their related parties are carried out at arms' length. Should it come to the attention of a director that a matter concerning the Company may result in a conflict of interest, obligates the director to declare the same and recuse himself/herself from any discussion or decision over the matter in question. - At any meeting of the Board, members are expected and they do make a declaration of any interest they may have in the business under discussion at any given meeting.	Board Charter Section 5.10
M	B.19	Has the Board adopted a policy on related party transactions to protect the interests of the Company and all its shareholders and which meets the requirements of the Code?	2.3.7	FA	Yes. The Company has a policy and processes to address related party transactions that are outlined under Section 5.14 of the Board Charter.	Section 5.14 of the Board Charter.
M	B.20	Has the Company appointed a qualified and competent Company secretary who is a member in good standing of ICS?	2.3.9	FA	Yes, the Company has engaged the firm of Livingstone Associates to support in the provision of Company Secretarial Services. The Company secretary is a member in good standing with the Institute of Certified Secretaries (ICS). The firm has a dedicated resource namely, CS Winnie Jumba (CPS (K)) who offers direct support to the Company.	2017 Annual Return 2017 Annual Report (page 21)
A or E	B.21	Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?	2.3.2, 2.3.6	FA	Yes. The Preamble to the Board Charter is cognizant of the need for the Company to be aware of the impact of its environmental and societal interests on its reputation and long term success. The Company's sustainability initiatives that are incorporated in the Company's Annual Report. There is a robust Risk Management framework comprising various policies and procedures e.g. Enterprise Risk and Management Policy, an ERP - (SAP), oversight is provided by BaRC and Management Risk Committee.	Preamble to the Board Charter Corporate Social Responsibility and Sustainability Report (as presented on page 28 of the 2017 Annual Report)
A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3	FA	Yes, the Board prepares an Annual work plan to guide the Board's activities for every calendar year.	The annual work plan was tabled to the Board the last meeting of every calendar year for consideration and approval.

M	B.23	Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation or the performance of the Board, the Board Committees, the CEO and the Company secretary?	2.6.4, 2.8	FA	Yes, the Board has provided for an evaluation of the Board, Board Committees the Group Managing Director and the Company Secretary for the year ended 30 June 2018 as provided in the Board Charter. The exercise was undertaken by a local and independent consultant and a high level presentation on the findings of the evaluation was presented to the Board to inform continuous improvement initiatives.	Board Charter Section 2.8.1 (c)
A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1	FA	Yes. A formal induction program for new Directors is in place. The Board (through the offices of the CEO and Company Secretary) conducts comprehensive induction process for new Directors to be acquainted with the Company's vision, strategic direction, core values, financial matters, corporate governance practices and other key policies and practices. The induction involves meetings with the Chairman, the CEO, Company secretary and Senior Leadership Team in the Company as well as visits to the Company's key facilities.	Board Charter Section 5.1.8; Board induction tool from the Company Secretary and the induction program by Management.
A or E	B.25	Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?	2.7.3	PA	The Company did not schedule any training in the Company's calendar for the Directors in the financial year. The Directors however pursued relevant trainings independently.	Board Charter Section 5.1.8.

A or E	B.26	Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of directors?	2.9.2	FA	Yes. The Board has set up a Board Nomination and Remuneration Committee (BNRC) as earlier confirmed. The Committee constantly reviews the remuneration of the non-executive directors and makes the appropriate recommendation to the Board on whether to maintain the remuneration as is or to vary it accordingly.	Board Nomination and Remuneration Committee TORs; Board Charter Section 5.5 (b)
M	B.27	Has the Board established and approved formal and transparent remuneration policies and procedures that attract and retain Board members?	2.9.1	FA	Yes. The Board ensures that compensation and incentives for both EDs and NEDs are competitive and intended to encourage positive engagement with the Company in line with the provisions of the Board Charter. To this end, the Company undertakes a benchmarking survey with peer companies to inform the committee on whether to vary or maintain the remuneration payable to members of the Board. the Board has adopted Director's Remuneration Reporting and approved a Remuneration policy in accordance with new Companies Act/Regulations in 2018. the compensation scale for the NED's defines the honorarium and sitting allowances for Board and Board Committees.	Non- Executive Directors' Remuneration Policy; Board Charter Section 5.12.
M	B.28	How does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?	2.10, 2.10.1, 2.10.2	FA	The Board monitors compliance through the BARC, Management and internal audit reports. The report of the external auditor and in 2018 commissioned Legal and Compliance audit and Governance audit.	Various Management reports
M	B.29	In the past year, has the Board organized a legal and compliance audit to be carried out on a periodic basis?	2.10.3	FA	The Company has engaged an independent consultant to undertake a full legal and compliance audit to establish the level of adherence to applicable laws, regulations and standards.	-
A or E	B.30	Has the Board subjected the Company to an annual governance audit?	2.11.1	NA	A Governance Auditor has also been engaged to undertake a comprehensive Governance Audit as required by the Code.	-

	C	RIGHTS of SHAREHOLDERS				
M	C.1	Does the governance framework recognize the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0 Overview, 3.2.1	FA	Yes it does. All shareholders are treated equitably and non has preference over the other. This is confirmed in the following ways:- - All shares have been issued as ordinary shares that awarding no shareholder preferential treatment over the other. - All public announcements of the Company are made in newspapers of national circulation and posted on the Company's website. - All shareholders are awarded equal hearing at the Company's Annual General Meetings and their concerns adequately addressed. - The Company publishes in newspapers of nation wide circulation its half year results and commentaries and cautionary announcements (where necessary) to inform all its shareholders of the Company's state of affairs. The Company has commissioned a Shares Registrar (Custody and Registrars) to manage shareholder issues.	-
M	C.2	Other than at the AGM, how does the Board facilitate the effective exercise of shareholders' rights?	3.1.1	FA	The Board provides for the following additional avenues for shareholders to exercise their rights:- - Made provisions in the Charter for shareholders to restrict the participation by a Director to a maximum of three listed Companies; - Provided a framework in the Charter to guide the Board and Shareholders interactions with shareholders and further tasks the Chairman to represent their concerns to the Board; - The Charter binds the Company to disclose material information to shareholders; and - It grants that the shareholders can have access to the Board Charter. - Appointment of a Share Registrar to manage shareholder correspondence on behalf of the Company. - Additional avenues are as summarised under M (C1) above. The Company has established various avenues for information dissemination - the website, integrated reporting, share registrar and Company Secretary's office, customer care support lines to ensure shareholders have access.	Board Charter Sections 4.1.4, 5.1.1/2, 5.7.3, 5.13 and 5.18
M	C.3	How does the Board facilitate shareholders participation at the AGM?	3.1.1	FA	The Board facilitate shareholder participation at general meetings in the following ways:- - The notice and agenda of the AGM are communicated to the shareholders within the statutory time limit including the annual report. - The Company has used technology to reach out to the shareholders eg use of the Company website to communicate their rights to appoint a proxy; - Shareholders are allowed to vote by proxy and a proxy form is provided in the annual report, on the Company's website; - The AGM notice provides for any other business of which due notice has been given to be discussed at the AGM; - Sufficient information on each agenda item and the resolution intended to be passed are included in the notice; - The Chairman invites shareholders to ask questions on the agenda items and adequate time is given for shareholders to ask any questions. The questions are responded to by the Board as well as management; - A call for a proposer and seconder from the shareholders is requested for by the Chairman only after all questions from the shareholders have been responded to. - The Company also chooses venues that are easily accessible to its shareholders and stakeholders.	Notice and agenda for the Annual General Meetings which is available on the Company's website.

A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1	FA	Yes, they are. All shareholders are treated equally. Information is disseminated to all shareholders at the same time and none has priority.	-
A or E	C.5	Is there evidence that the Board proactively provides information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?	3.1.1, 3.4.1	FA	Yes - Periodic press releases are held in line with the CMA disclosure requirements to inform shareholders and the public of the Company's performance; the Company's website is continuously updated with information on the Company; share registrars and Company secretary are always available to respond to any questions that are raised.	Company website and various material announcements that are published in 2 newspapers of wide circulation.
D STAKEHOLDER RELATIONS						
A or E	D.1	Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies its various stakeholders?	4.1.1	FA	Yes - The Board has identified its stakeholders and addressed the relationship with each as indicated in the Board Charter. The Board has taken the approach of listening to the Company's stakeholders and learning from them. The Company employs a variety of informal and formal methods to gather and exchange information with its stakeholders, and to tailor its engagement process to suit each different stakeholder group. The insights that the Company has gained through the exchanges are fed directly into the Company's decision making processes and inform the sustainability strategies and priorities of the Company.	Board Charter Sections 5.7.3
A or E	D.2	Has the Board developed policies, procedures and strategies to manage relations with different/key stakeholder groups?	4.1.2, 4.1.3, 4.1.5, 4.2.1	FA	The Company has in place the processes and procedures to address the relations with various stakeholders.	Board Charter Sections 5.7.3
A or E	D.3	How does the Board take into account the interests of key stakeholder groups prior to making decisions?	4.1.4	FA	The Board has taken the approach of listening to the Company's stakeholders and learning from them. The Company employs a variety of informal and formal methods to gather and exchange information with its stakeholders, and to tailor its engagement process to suit each different stakeholder group. The insights that the Company has gained through the exchanges are fed directly into the Company's decision making processes and inform the sustainability strategies and priorities of the Company.	Board Charter Sections 4.1.4, 5.1.1/2, 5.7.3, 5.13 and 5.18
M	D.4	How does the Board ensure effective communications with stakeholders?	4.2, 4.2.1	FA	The Company engages with its stakeholders through various means: - Media and Company website; - the Regulators - engagement by directors and senior management with the representatives of the Authorities on a continuous basis; - customers - through publications, Company website; - employees - internal briefings and communication through memos, updates by the CEO, intranet; - business partners - through hosting of periodic meetings, use of relationship managers; - Press releases; and - suppliers through the Company's procurement framework.	-
M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1	FA	Yes - the Company makes reference to the Human resource policy which provides for the disciplinary process and measures to be taken to resolve internal disputes. On External disputes, recourse is to the mechanism as stated in various contracts with arbitration being the preferred mode. Amicable settlement of the disputes is always the first recourse of dispute resolution.	Human Resource Policy; Various contracts with third parties.

	E	ETHICS AND SOCIAL RESPONSIBILITY				
A or E	E.1	Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?	5.1.1	FA	Yes. The Board ensures that decisions taken are founded on responsibility, accountability, fairness and transparency and this is provided for in the Board Charter and within the broader governance framework (policies, committees, procedure manuals, strategy documents, visual signs around the office premises) The Board regularly (quarterly) reviews the activities of management (both financial and non financial) to ensure that it acts in accordance to the tenets of good governance. All Board members fill out conflict of interest declarations.	Board Charter, Section 5.11
M	E.2	Has the Board developed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all directors, management and employees?	2.6.1, 5.2.2, 5.2.3, 5.2.4	FA	The Company has a code of conduct and Ethics. The code of conduct covers; conduct and responsibilities, professionalism, compliance with laws, conflicts of interest, gifts & hospitality, care of property, political involvement, insider trading, integrity of records and transactions, acting through others and conduct of private affairs. Initiatives to ensure its application include; training, monitoring adherence, providing mechanisms for whistleblowing of non adherence, taking disciplinary action on those who don't adhere. Ethics related matters are discussed in detail by the Board Audit Committee on a quarterly basis and also reported to the full Board.	Board Charter, Section 5.11; and The Code of Conduct and Ethics
A or F	E.3	How does the Board ensure that compliance with the Ethics Code and Conduct is integrated into Company operations?	5.2.3	FA	The following has been instituted to ensure compliance with the code and its integration into the Company's operations; - Ensuring that the Directors sign the Annual Declaration page of the Code of Conduct and Ethics confirming their commitment to adhere to the code; - Development of specific policies and procedures that support the Code of Conduct and Ethics and that provide further guidance to staff; - Training staff on the Code; - Regular review of business processes to ensure adherence to the code; - Investigation and disciplinary action where ethical breaches are suspected; - Regular reporting of ethics initiatives to the Board Audit Committee; - Every member of staff is required to sign their consent to abide by the requirements of the code by making reference to the code in the employee's employment letter.	Signed Copies of the Directors Annual Declaration Forms

A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1	FA	Yes, the Board, through a multi disciplinary team within the Internal Audit Division, facilitates the Company wide risk assessments that reviews all risks facing the Company. The top risks are discussed in detail by the Board Audit Committee. The Company has also adopted PaTaMu and Kaizen philosophies.	-
A or E	E.5	How is the Company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?	5.2.4, 5.2.5	FA	The Board Audit Committee obtains quarterly updates on ethics related matters.	-
A or E	E.6	Has the Company established and implemented a whistle blowing policy?	5.2.5	FA	The Company has approved a Whistle Blowing Policy that outlines mechanisms that will facilitate the anonymous reporting of anti ethical behaviour. It is anticipated to finalise and put in place the reporting framework by end of 2018.	Whistle Blowing Policy can be availed by the Management Team.
A or E	E.7	Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for Company use?	5.3.1, 5.4	FA	Yes, the Board has captured the Company's aspirations towards responsible corporate citizenship and sustainability in the preamble to the Board Charter that confirms that the Company's commitment to responsible corporate citizenship. The preamble states that "In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which the Company operates can also have an impact on its reputation and long term success". The Company strategy promotes various sustainability initiatives that are incorporated in the Company's Annual Report.	Board Charter; Preamble Corporate Social Responsibility and Sustainability Report (as presented on page 28 of the 2017 Annual Report.)
M	E.8	Does the Board consider not only the financial performance but also the impact of the Company's operations on society and the environment?	5.3.2, 5.3.3	FA	Yes it does. The Annual Reports confirms the Company's commitment in sustainability initiatives, Environmental Impact of operations, Energy Conservation, Health and Industrial Safety in addition to financial performance. The Company also performs various Environmental audits and publishes its results. The philosophies of PaTaMu and Kaizen are	Corporate Social Responsibility and Sustainability Report (as presented on page 28 of the 2017 Annual Report.)
A or E	E.9	Does the Board monitor and report activities leading to good corporate citizenship and sustainability to demonstrate they are well coordinated?	5.4.1	FA	Yes it does. The Board on a quarterly basis receives reports on the Company's sustainability initiatives, financial and non financial performance through BARC. The summary of the collective impact of the various initiatives are reported to the stakeholders in the Annual Report.	Quarterly Management Reports. Corporate Social Responsibility and Sustainability Report (as presented on page 28 of the 2017 Annual Report.)

	F	ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL				
M	F.1	Does the Audit Committee and the Board consider and review the financial statements for integrity of the process and for truthful and factual presentation?	6.1, 6.1.1a	FA	Yes it does. The Board Audit Committee discusses and critically analyzes the financial statements with the External Auditor. Once satisfied, the financial statements are presented to the Board who ask any questions with respect to the financial statements and thereby approve the statements.	Minutes of the BAC meetings; TORs of BAC Section 3 and 5 (j)
M	F.2	Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?	6.1.2	FA	Yes -The Statement of Directors' responsibilities as contained in the Annual report. The report of the independent auditor to the shareholders of the Company also outlines the reporting responsibility of the external auditor.	2017 Annual Report
A or F	F.3	Does the Board or audit committee have a process in place to ensure the independence and competence of the Company's external auditors?	6.1.1b	FA	Yes. As part of its mandate, the Board Audit Committee evaluates the performance of the external auditors annually including their independence and makes the relevant recommendation to the Board.	TORs of BAC Section 5 (g)
M	F.4	Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process?	6.1.3	FA	Yes - the notice of the AGM will always include the appointment of the external auditors as an agenda item. At the AGM, the proposal is made to the shareholders to appoint the auditors following the recommendation of the Board. The shareholders have the right to accept or refuse the recommendation.	Previous AGM notices and agendas.
A or E	F.5	Is the Company working towards the introduction of integrated reporting (incorporating financial and non-financial information) or is the Company's Annual Report prepared on an integrated basis using a framework available from the Integrated Reporting Council, The Global Reporting Initiative, G4 Sustainability Guidelines and/or Sustainability Accounting Standards Board standards?	6.1.5	PA	The Company is working towards incorporating integrated reporting. To date, this has been embraced in part to allow for the reporting of other significant non financial performance related information over and above financial performance reporting. The Annual report has a section that address issues of Corporate Governance and Corporate Social Responsibility and Sustainability to address the information that different stakeholders would be looking for. Additional work is ongoing in this area to facilitate integrated reporting.	2017 Annual Report
A or E	F.6	Has the Board established an effective risk management framework which is inclusive of key risks as well as foreseeable risks, environmental and social risks and issues?	6.2.1	FA	Yes - The Company has set up a fully fledged risk management framework that is supported by the Finance Department, which monitors and assesses risk affecting the various aspects of the Company continuously and provides mitigation measures thereof. Oversight is provided through BARC and Management Risk Committee, with input from the internal audit function and the external audit function. The Risk Department is lead by a Head of Risk and the risk controls supported by an ERP - (SAP)	Extracts of the minutes of the BAC minutes and accompanying reports.

M	F.7	Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?	6.3.1, 6.3.2, 6.3.3	FA	Yes - The Company's Finance department monitors and reports to the BAC the adequacy of the Company's internal control systems. The department reviews the systems on an ongoing basis and identifies all breakdowns in the controls and management actions thereof. Any concerns are presented to the BAC for additional reviews of the identified risks and controls and reports the position to the Board. The ongoing legal compliance and governance audit will also be used to establish the Company's compliance on legal and compliance matters. During the year 2018, the Board undertook an audit of the SAP to review the adequacy of the ERP.	Extracts of the minutes of the BAC minutes and accompanying reports.
	F.8	Does the Board annually conduct a review on the effectiveness of the Company's risk management practices and internal control systems and report this to shareholders?	6.4.1	FA	Yes it does. The effectiveness of the Company's risk management practices and internal controls is reviewed continuously by the Board and the results thereof are captured in the Annual Report (which is available to all Stakeholders). The external auditors also perform a systems audit ~~as part of the financial audit~~ .	2017 Annual Report
	F.9	Has the Board established an effective internal audit function according to Code requirements and which reports directly to the Audit Committee?	6.5.2	FA	Yes - the Company has set up an Internal Audit function under the Finance Department and the same reports to the Board Audit Committee. A report is presented to the Board on a quarterly basis to brief the committee.	Extracts of the minutes of the BAC minutes and accompanying reports.
M	F.10	Does the Board disclose details of Audit Committee activities?	6.5.2	FA	Yes - The Annual report and audited financial statements disclose the audit activities that were undertaken in the financial year, the audits that were undertaken and the findings thereof. The Corporate Governance Statement states the functions of the BAC, indicates the members of BAC and their attendance at the BAC meetings.	2017 Annual report, audited financial statements and accompanying notes and Statement on Corporate Governance Statement pages 24.
	A or E					

	G	TRANSPARENCY and DISCLOSURE				
M	G.1	Does the Company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and this Code.	7.0 Overview, 7.1.1	FA	The Company has policies and processes to ensure timely and balanced disclosure of material information. The Company has set up fully fledged departments that support in this role as well as contracting external service providers to assist and ensure that timely disclosures are made to the Regulator, the Central Depository, the Exchange and the General Public. e.g Board Charter, Insider Trading policy, Code of Conduct have defined material information and the procedures to follow in making the attendant notifications.	-
A or E	G.2	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the Company's governance, the Board and the Audit Committee?	7.1.1	FA	Yes -The Annual report contains the Corporate Governance Statement which outlines information on the Company's governance, the Board and the audit committee.	2017 Annual report, Corporate Governance Statement Pages 26/27
A or E	G.3	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the Company's mission, vision and strategic objectives?	7.1.1	FA	Yes -The mission, vision, core values and strategic objectives are specifically stated in the Company's annual report .	2017 Annual report Pages 2 - 4
A or E	G.4	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?	7.1.1	FA	The Company has included in the annual report the Board Remuneration Report and that of Executive Directors (Page 33 to 38). The updated version of the Directors Remuneration Report in the format that was published in the Kenya Gazette was incorporated in the 2017 Annual Report. The Company has implement a Whistle Blowing Policy and a highlight of its implementation will be reported in due course.	Page 33 to 38 of the 2017 Annual report
A or E	G.5	As a minimum, does the Company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors)?	7.1.1	PA	The Company's website discloses various information on the Board of directors, Company secretary, key management and annual reports. Any press release from the Company is published in two newspapers of nationwide circulation.	http://nyngacorp.com/downloads/
A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	FA	The Company has adopted integrated reporting format and gives adequate disclosures on the Company's governance framework. The information is contained in the annual report and the Company's website.	Company Website 2017 Annual report
A or E	G.7	Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?	7.1.1	FA	The Company has undertaken a Legal and Compliance Audit in 2018. The Board has so far provided disclosures in the annual report including Directors' interests and a statement on citizenship (corporate social responsibility).	2017 Annual report (page 27, 28 and 29)

A or E	G.8	Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?	7.1.1	FA	Yes - The Company has undertaken a Governance Audit for the financial year ended 30th June 2018 and the Auditor's opinion will be reported in due course.	
A or E	G.9	Has the Board disclosed the Company's risk management policy, Company procurement policy, policy on information technology as per 7.1.1?	7.1.1	FA	The Company has in place a Risk Management Policy that was approved at the Board meeting held on 28 September 2017. The Company intends to conclude and disclosure of the various policies as stated in the Code within the next two financial years.	Risk Management Policy
M	G.10	Has the Board disclosed information on shareholders, including the key shareholders, including shareholding by directors and senior management and the extent of their shareholdings as required in 7.1.1 and on stakeholder who influence Company performance and sustainability?	7.1.1	PA	Yes it has. Information on the shareholding by directors; key shareholders including their shareholding are disclosed in the Annual report. Also disclosed in the Annual report are matters on sustainability. We will build up and include other aspects of disclosure including shareholding by senior management in the forthcoming annual report.	Annual report Pages 27
M	G.11	Has the Board disclosed all related-party transactions?	7.1.11	FA	All related -party transactions were disclosed in the 2017 Annual report.	2017 Annual report Page 90 - 91
M	G.12	Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?	1.1.3, 7.1.1r	FA	The Annual Report provides a Statement on Corporate Governance Statement and provided a status of application of the Code in the forthcoming Annual report subject to receipt of the relevant feedback from the CMA on the application of the Code.	2017 Annual report Pages 10, 26

- Note 1: The Reporting Template shall be used by companies to report on their application of the provisions of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code). The completion of the Reporting Template and its filing with the Capital Markets Authority (CMA) will fulfil the reporting requirements of the Code at 1.1.3 paragraph 7. All elements marked in green are mandatory and MUST be complied with. Failure to fully apply will result in regulatory sanctions. When completing column 'F' for MANDATORY ITEMS, 'FA' will mean 'Fully Complied With', 'PA' will mean 'Partially Complied With' and 'NA' will mean 'Not Complied With'.
- Note 2: Column 'F' should be marked as follows: 'FA' - Full Application, 'PA' - Partially Applied or 'NA' - Not Applied. Full application of this Code is required by the Code. Therefore anything less than 'full application' is considered 'non-compliance or non-application' of the Code. A response of PA or NA is non-compliance and requires an explanation to be provided with a firm commitment to moving towards full compliance. See also Note 4.
- Note 3: An explanation of how the Code provision is applied is required in column 'G' and shall be supported by evidence of how application has been achieved. If the provision is NOT applied, an explanation for why it is not applied or only partially applied is required in column 'G'. For each question, column 'G' must be completed.
- Note 4: If an explanation is required because of non-application of any element of the Code, the explanation must be satisfactory, must be provided to relevant stakeholders including the Capital Markets Authority and shall include:
- a. reasons for non-application
 - b. time-frame required to meet each application requirement
 - c. the strategies to be put in place to progress to full application.

LEGAL AND COMPLIANCE AUDITOR'S REPORT

The Capital Markets Authority's Code of Corporate Governance for Issuers of Securities for the Public 2015 requires the Boards of listed companies to ensure the following;

- a) Save for when the independent legal and compliance audit is carried out, an internal legal and compliance audit shall be carried out on an annual basis, with the objective of establishing the level of adherence to applicable laws, regulations and standards;
- b) That a comprehensive independent legal audit is carried out at least once every two years by a legal professional in good standing with the Law Society of Kenya; and
- c) That the findings from the audits are acted upon and any non-compliance issues arising corrected as necessary.

STATEMENT OF THE RESPONSIBILITIES OF THE DIRECTORS

The Board is committed to ensuring that Unga Group Plc ("the Company") and its subsidiaries are in compliance with the laws, regulations and standards applicable to it. In order to ensure compliance, the Board has established internal procedures and monitoring systems to promote compliance with applicable laws, regulations and standards. In this regard, the Board is supported by duly qualified legal and compliance professionals whose duty it is to guide and focus the Company's compliance efforts. In order to assure itself that the Company is compliant with applicable laws, regulations and standards, the Board commissioned a Legal and Compliance Audit with the aim of establishing the level of adherence to applicable laws, regulations and standards. The Lead Legal Auditor is Mr Charles B G Ouma of Dorion Associates.

RESPONSIBILITY OF THE LEGAL AUDITOR

The Legal Auditor's responsibility is to express an opinion on the level of compliance by the Company and its subsidiaries to the applicable laws, regulations, standards and other sources of obligations. In carrying out the Legal and Compliance Audit, the Auditor prepared a compliance matrix identifying each of the Company's compliance obligations under the applicable laws, regulations, standards and evaluated the level of compliance.

OPINION

The Auditor is of the opinion that the Company and its subsidiaries, in material respects, broadly comply with the requirements of the internal and external legal framework. Instances of non-compliance, none of which has been ranked as posing a serious risk to the legal health of the Company and its subsidiaries have been identified and specifically reported.



Mr. Charles B G Ouma

For Dorion Associates

30th October 2018

Date

For more information about this LCAR, please contact:

Charles B G Ouma – couma@dorion.co.ke

Catherine Musakali – cmusakali@dorion.co.ke

GOVERNANCE AUDITOR'S REPORT

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code"), requires the Board of a listed company to subject the company to an annual Governance Audit to check the level of compliance with sound governance practices.

The annual Governance Audit should be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). In compliance with the Code, Unga Group Plc ("**the Company**") retained Ms. 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 Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

STATEMENT OF THE RESPONSIBILITY OF DIRECTORS

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. This responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective governance of the organization. The Board is also responsible for ethical leadership, risk governance and internal control; transparency and disclosure; equitable protection and exercise of members' rights and obligations; compliance with laws and regulations; sustainability; performance management and strategy formulation and oversight.

The Board of Directors is committed to the highest standards of good Corporate Governance and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a Governance Audit for the year ended 30th June 2018, and obtained a report, which discloses the state of governance within the Company.

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 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.



Date: 30th October 2018

FCS. Catherine Musakali, ICPSK GA. No 006

Dorion Associates

For more information about this report, please contact:

Catherine Musakali – cmusakali@dorion.co.ke

UNGA GROUP Plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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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

SECRETARY	Ms Winniefred N Jumba Certified Public Secretary (Kenya) Livingstone Associates Deloitte Place, Waiyaki Way, Muthangari P O Box 30029, 00100 Nairobi
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REGISTERED OFFICE	Plot No.209/6841 Ngano House, Commercial Street Industrial Area P O Box 30096, 00100 Nairobi Tel: +254(020)3933000
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REGISTRARS	Custody & Registrars Services Limited 6th Floor, Bruce House Standard Street P O Box 8484, 00100 Nairobi
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AUDITORS	PricewaterhouseCoopers Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/ Chiromo Road, Westlands P O Box 43963, 00100 Nairobi
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BANKERS	Barclays Bank of Kenya Limited The West End, Waiyaki Way P O Box 30120, 00100 Nairobi
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ADVOCATES	Kaplan & Stratton Williamson House 4th Ngong Avenue P O Box 40111, 00100 Nairobi
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CHAIRMAN'S STATEMENT

Unga Group Plc is constantly evolving, adapting and developing solutions and products that ultimately allow for the improvement of food security in the region. The World Food Summit of 1996 defined food security as existing when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food to meet their dietary needs for a productive and healthy life. Unga Group Plc's vision "Nutrition For Life" is central to the provision of major sources of carbohydrates and proteins for human consumption, and to the provision of animal feeds for the production of animal proteins.

Our vision is aligned with the Government of Kenya's 'Big 4 Agenda'; where under the 'Food Security and Nutrition' Pillar, His Excellency, The President has declared that new and innovative initiatives are to be used to enhance large scale production of food and to ensure that Kenyans have access to safe and nutritious food. Unga Group Plc (UGP) has, for over a century, been building the resources and developing capacity to provide a steady supply of flours, animal feeds, cattle minerals and more recently, pulses and grains, regardless of environmental factors and changes to annual harvests, to Kenyans.

In this year's Annual Report and Financial Statements for the year ended 30th June 2018, I am pleased to report the significant progress that UGP has made in getting its financial performance back on track. Whilst the Group recorded a modest growth of 2% in sales revenues, profit before tax from continuing operations recorded a notable increase of 469%; this in spite of a severe drought and the uncertainty of the repeat presidential election. These results were attributable primarily to (a) consumer preference for Jogoo® during the period of the maize subsidy program, (b) high demand for wheat flour when maize meal was in limited supply, and (c) improved animal feed volumes and margins realised as a consequence of increased demand from both poultry and dairy farmers.

We continue to build on our strong presence across the region by adhering to our four strategic pillars of "*Customer Intimacy*", "*Human Development*", "*Expansion & Diversification*" and fourthly "*Supply Chain Management*", which we believe enhance our resilience to changes in the external environment. These pillars have informed our specific activities since 2015 and were developed as part of a five-year business transformation journey. The strategy adopted by your Board has positioned us for sustainable long-term profitable growth, and seen us deliver another year of solid operating results and financial performance.

ON CUSTOMER INTIMACY

We have continued to meet market demand regardless of the unsettling change in supermarket distribution and presence across the country, and the damage to infrastructure due to unexpectedly high rainfall. Our customer intimacy strategy involves a long-established relationship with the public, to better understand local consumer trends and customer needs. We have developed innovative and customised solutions, including the implementation of digital tools to reach our customers and provide them with the information and range of products that they have come to expect. In addition, the adoption of Customer Relationship Management (CRM) software has built on the recently commissioned Enterprise Resource Planning (ERP) system, SAP, which has allowed us to interact more closely with our trade partners.

Whilst our wheat brands saw a drop in volume growth compared with the previous year, impacted by the increase in competition and an overall decline in consumer demand, our maize, porridge, pulses and rice portfolio delivered strong volume growth compared with the previous year.

Performance in both the animal nutrition and health businesses saw exceptional volume growth over the prior year, with the feeds category growing across all of the major product lines. Our customers continue to support the purchase of our superior products, due to the value generated from better yields.

Our bakery, Ennsvalley, has rationalized its product-line to better meet consumer needs. With over 150 different products, we have continued to meet the expectations of our discerning clientele, in spite of the negative impact created by the loss of our in-store relationship with Nakumatt. This however, substantially reduced sales and our volumes dropped significantly across all four of our product lines: bread, cakes, rolls and pastries. In order to increase our engagement with non-traditional customers, we started piloting a new approach to deepening our consumer reach under the KiQwetu® retail outlets model in high density areas around Nairobi. These standalone retail bakery units have been strategically placed in Kahawa West and Tassia Pipeline to provide a range of hot, fresh and healthy baked goods and snacks to both school children and working families, on a daily basis.

The creation and provision of an outstanding customer experience remain at the core of everything we do. So far, our success has positioned us as the brand of choice in the market. We plan to build on this into the future to continue to provide our customers with products for a more modern and rapidly developing and quality-conscious human and animal nutrition sector.

ON HUMAN DEVELOPMENT

Building on the culture transformation program that was introduced in 2016, we continued with the organisational competency development exercise. The main objective of this process was to align our employees with our strategic direction, enhance healthy interactions within the workplace and extract the best out of every employee by identifying performance gaps as well as areas of success. As such, we have put in place career development plans, an improved succession planning process and developed leadership and sales competency frameworks.

In order to plan for the succession process and to develop leadership, our human resources department uses a performance potential matrix (PPM) to identify key resources. The matrix was designed to identify individuals that could be developed to assume greater responsibilities within the group, raise staff motivation and improve employee retention. The process includes discussions held between line managers and individuals, to ensure alignment.

Our management teams undertook deliberate measures to ensure that promising employees were continually being groomed to take up key roles in the future. As such, and in accordance with our career development plans, of the 47 roles filled over the last year, 20 of these positions were filled by internal candidates. These individuals had established knowledge of the company culture, relationships with other employees, and had proven track records of success within the company. Further to this, 29 employees were promoted to take on higher roles, in line with our succession planning process. These individuals were recognised as having the potential to lead their respective teams, allowing for talent development and meeting a 90% success rate with our succession plan.

Having budgeted a total of Kshs 17.5 million for training, we provided a number of different sessions for different sections of our company. The human resources professionals were exposed to corporate governance training in order to improve human resource management and to meet full compliance with human resource governance. Professional coaching was provided in order to build internal capacity for coaching. A learning managers symposium was held, to improve on the transfer of knowledge, to support leadership development and to enhance understanding of industry relations.

Through active engagement with the company's medical insurance provider, our management teams have devised systems to promote employee wellness, particularly with regard to maternity and respiratory issues. Close to Kshs 37 million was earmarked for employee welfare needs while Kshs 26 million was spent on medical care and insurance.

The culture of Unga remains a strong force in the employee experience. We are committed to delivering opportunity for our staff to develop and grow. Towards the end of the year we commissioned a culture survey which will allow us to determine progress against the benchmark survey conducted in 2016. We believe that our efforts this year have yielded positive results, particularly as it relates to information flow across the organisation.

ON EXPANSION & DIVERSIFICATION

Unga's regional manufacturing network, innovation and sales presence has continued to allow us long-term growth across our portfolio. We have strived to adapt to and meet the demands of an ever-changing market. Although Nairobi, Nakuru and Eldoret may be synonymous with Unga as the centres of our production; our presence far exceeds these three areas. We work closely with local farmers to both purchase and provide products throughout the country all year round.

Unga Limited has invested heavily in the establishment of a new state-of-the-art wheat mill in Eldoret. This 300 tons per day (grain) unit, scheduled to be commissioned in October 2018, will allow us to better meet market demand whilst producing higher quality flour more efficiently.

As reported last year Unga Farm Care (EA) Limited (UFCEA) commissioned its extruded fish feed plant located in Nairobi in March 2017. The plant, built with the assistance of a Dutch government grant and a technical support agreement with Nutreco/Skretting, is the first of its kind in the region. The high-quality floating fish feed offers the best in nutritional value for the growing tilapia farming sector. Members of the UFCEA sales team worked closely with Skretting to develop co-branded packaging and in November 2017 partnered with four fish farms to test the newly developed products. As anticipated, subsequent sales growth has been slow but steady, as farmers test the product for themselves and realise the promised benefits. Sales of the new feed have been made to the Vihiga County and extensive commercial trials are also underway at Victory Farms, the largest cage farming operation on Lake Victoria.

Operating in a highly competitive market environment where raw material costs and quality are key, UFCEA recently secured Board approval for a soya bean meal processing plant located at the Nairobi Feeds facility; this is expected to be fully operational before the end of the current financial year. The plant will allow us to meet our entire soya bean meal needs from in-house production.

At Ennsvalley Bakery, whilst a limited range of products remains available on shelf at the remaining Nakumatt stores, management is planning for the establishment of additional in-store counters with Chandarana Food Plus Supermarkets and with other leading supermarket chains. Additionally, if the KiQwetu® concept proves successful it will be expanded to include additional outlets, with a view to one day moving them to a franchise model.

Our strategies of expansion and diversification have provided new and emerging markets with our products. We have continued to drive improvements without compromising our quality or safety standards by adopting modernity and technology to realise this.

ON SUPPLY CHAIN

In July 2017, management embarked on a project to review the group's entire supply chain model. Between July and September of 2017 management, supported by consultants, undertook an

assessment of the entire spend (excluding payroll costs) and ascertained that there was over time, the potential to make savings totaling hundreds of millions of shillings. The same team then started to assess the existing procurement process against best practice; this will be ongoing throughout 2018. Their work, led to the idea that the procurement organisation, processes, skills, technology and tools to support the business, need to be embedded in all areas.

In keeping with our modernity plans, we intend to build more automation into our plants. This will lead to improvements in labour productivity and cost control. Ultimately, in order to improve our manufacturing and supply chain networks, we will continue to evaluate our systems in order to drive quality enhancements and cost savings that will maximise customer and shareholder value.

FUTURE OUTLOOK

Without doubt, the 2018 financial year has been an excellent one for the Group. We believe that, given anticipated favorable raw material prices, the animal nutrition business will continue to grow from the strong volume base established in 2018. However, the expected ready availability of maize grain and the impact of increased wheat milling capacity on flour price, will make for a challenging year with the human nutrition business. We will however continue to develop and introduce new products whilst making further improvements to our route-to-consumer, including trade support programs.

Seaboard Corporation's offer in early February 2018 to purchase the outstanding minority shareholding in UGP that they did not already own, closed in late June. In spite of their not achieving adequate shareholding (acting in concert with Victus Limited) to seek automatic de-listing, they have decided, with Capital Markets Authority approval, to retain the shares that were offered to them and are now UGP's second largest shareholder. The Board will continue to work diligently in the interest of all its shareholders to ensure that UGP remains a market leader within the region and plays a pro-active role in ensuring food security and adequate nutrition for all.

APPRECIATION

Given our diverse product portfolio and broad regional scope, this year, we successfully navigated changing through customer landscapes as well as severe weather events and difficult political environments. However, without our stakeholders' support Unga would not have been able to weather such difficult times and deliver the positive results you see today. I wish to thank you all for your continued commitment to Unga.

I wish to convey my gratitude to our consumers who, in the face of shortages and supply disruption, have continued to show their loyalty to Unga. I also appreciate the support we have had from the Government of Kenya, especially the Ministry of Agriculture, Livestock and Fisheries, with whom we have worked very closely and positively related to the development of the fish feed and with fellow maize millers, who rallied to the Government's call to ensure that maize meal remained available to Kenyans at affordable prices.

The Board also wishes to thank our management and the rest of the staff who have worked tirelessly to ensure that Unga remains at the forefront in the market place despite the very challenging operating environment.

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

GROUP MANAGING DIRECTOR'S STATEMENT

In a competitive and evolving market, change is our only option. Unga is undergoing a number of process changes that will make us more relevant and more modern. We understand that improvement and innovation will lead to the transformational changes needed. For this reason, we have employed a number of different groups to help us with our journey; their advice and suggestions will go a long way to securing this prestigious organisation's future. Through integrity and respect, we have invested in our people, providing training and career advancement opportunities. Within the sphere in which we operate, we also understand our social and environmental responsibility, and as such have invested time and money to make a difference. Great teamwork and trust have led to a review of a number of our operational procedures; efficiency improvement and cost saving measures are underway to move our supply chain towards world class, while maintaining the integrity of our products.

We are an organisation that strives to deliver on the expectations of our customers and other stakeholders by living these core values: *Self-Responsibility, Trust, Respect, Innovation, Continual Improvement and Teamwork*. It is my pleasure to present an overview of our business performance based around our core values for the financial year ended 30th June 2018. In an unpredictable year, we have recorded modest growth in sales volumes, introduced new products, made significant asset investments and delivered strong bottom line results. The marketplace is ever more competitive and customers ever more discerning; Unga continues to invest in building its brand franchise and understands that route-to-consumer is where the battle will be won or lost – we intend to win!

The 2018 financial year was characterized by a very strong first half and a second half which was notably less so, particularly with regard to the human nutrition sector. Jogoo® did very well during the period when the maize meal price was controlled under the Government-sponsored maize subsidy program, confirming that the brand remains preferred by many Kenyans. Unfortunately the Company was not allowed to sell Hostess®, its premium maize meal brand, during the subsidy period; whilst volumes are gradually returning to previous levels, new category entrants are not making it easy. Wheat flour volumes and margins were better than expectations during the first few months, a time when both maize meal and wheat flour availability was limited as imported grain supply logistics ex-Mombasa were being sorted out. Unfortunately monies remain unpaid by the Government on maize purchased from millers, of which Unga Limited was one. The company will continue to work with our colleagues to pursue timely payment of the amount owed.

On the other hand, the animal nutrition business performed strongly throughout the financial year. Sustained raw material availability, particularly maize, at reasonable prices ensured that farmers were able to purchase our Fugo® animal feeds at a cost which gave them a fair return on the production of meat, milk and eggs. Additionally, the restricted availability of locally grown maize in the first half of the year made it difficult for smaller feed millers to maintain production, leading to increased demand for Unga's products. Unga Farm Care (EA) Limited developed a drought pellets offering in response to demand from famine relief agencies servicing the ASDL (arid and semi-arid lands) areas; these are now available as part of the company's standard product portfolio. Sales of our animal nutrition and health range has remained robust going into the 2019 financial year.

CONTINUAL IMPROVEMENT & INNOVATION

Through careful analysis and partnering with experts in their respective fields, we have made a number of changes to our systems and processes. As reported last year we have exited the flour milling sector in Uganda; given the challenging in-country environment we have been unsuccessful to date in selling the assets, and are therefore evaluating alternate uses for them. We believe that

Ennsvalley Bakery Limited's worst is behind us; the company is in the process of rebuilding the business to ensure a sustainable and growing revenue base, supported by an efficient central bakery and a portfolio of in-store outlets, developed in partnership with leading supermarket chains. The company rolled-out its new brand logo at the end of the financial year, and is piloting the KiQwetu[®] retail outlet concept in populated urban areas around Nairobi. If successful, KiQwetu[®] represents an opportunity to expand Ennsvalley's market reach to include lower income consumers.

In order to respond to capacity constraints and the growing demand for wheat products, Unga Limited initiated a new mill project in Eldoret during the financial year; this new and modern 300 TPD (tons per day, grain) mill will be commissioned in October 2018. The state-of-the-art facility is more economical to operate, is more flexible with regard to the products it can produce, and will allow us to compete more effectively. Refurbishment of the existing mill is planned.

During the year, Unga Farm Care (EA) Limited moved from the testing to the commercial sale phase of its range of Fugo[®] tilapia fish feeds; as anticipated, volume growth has been slow but steady in this developing sector, critical to meeting the country's future nutrition needs. The company is developing a range of Fugo[®] catfish feeds for market introduction before the end of the financial year, and will be commissioning a soybean meal processing facility within the same timeframe.

In order to further realise the benefits of the investment made in the SAP ERP platform, Supervisory Control and Data Acquisition (SCADA) machine control systems have been adopted and integrated. This control system architecture uses computers, networked data communications, graphical user interfaces, programmable logic controllers and discrete PID (proportional-integral-derivative) controllers to interface with plant processes and machinery. Additionally, Format Solutions, an integrated suite of software products and advisory services that allows the animal nutrition business to monitor shifting ingredient supplies, monitor nutrient values, test ingredients and adapt to regulatory changes, has been linked to SAP. Our ERP platform is now run and maintained by four certified in-house business system analysts who are focused on increasing system utilisation whilst reducing our reliance on external consultants.

While Unga has always been famous for its history and quality, we understand that modernity and innovation are key to maintaining our position as industry leaders. Our intention is to accelerate the innovation pipeline while sustaining the production of our existing product portfolio.

INTEGRITY, RESPECT & SELF-RESPONSIBILITY

At Unga, we understand that we have a responsibility to create a better society. At our core, we are aligned with one of the Government of Kenya's 'Big 4 Agenda' Pillars: *Food Security and Nutrition*. In addition, we are also aligned with another: *Manufacturing*. The former, obviously covers food availability, but also includes the enhancement of large-scale production and the reduction of the cost of food. The latter includes the development of in-country agro-processing capability. We engage in all of these elements, and everything we do is linked to the needs of the communities in which we operate, while appreciating the need for a return on our investments.

We have for many years been fortifying our milled products with micronutrients to tackle malnutrition in the region; in fact, we were producing fortified maize meal long before it was made mandatory. The fortificants include eight vitamins (A, B1, B2, B6, folic acid, nicotinamide), iron and zinc. Each time we introduce a milled product, we fortify it according to the regulatory requirements and/or the identified market need - for example, Famila[®] Pure Wimbi is fortified with calcium in order to protect the elderly against osteoporosis.

The Group has continued with its initiatives to reduce power, diesel and water consumption. In the financial year under review we reduced power consumption by 4.6 kWh per ton produced and

reduced water consumption by 12.93 litres per ton produced. The new Eldoret wheat mill has been designed to ensure that energy savings are maximized.

In 2018, the Group appointed a fulltime Head of Risk & Compliance, charged with the responsibility of ensuring that our Enterprise Risk Management (ERM) program moves forward with the focus and speed required. A fraud risk assessment will be contracted in the early part of the new financial year and an independently managed whistle blowing hotline activated.

The Group has embraced the PaTaMu Model (an acronym for 'Pamoja Tuangamize Muda') as a continual improvement strategy that strives to improve its productivity, quality, delivery and safety while maintaining highly motivated teams and eliminating waste. By focusing on its four continual improvement pillars (total productive maintenance, total flow management, total quality management and safety, health and environment), significant savings have been realised while maintaining high levels of customer and supplier satisfaction. A key enabler to the PaTaMu journey is the learning, change and development program. As an organisation, our mandate is to develop people to have a mindset that everything can be improved. By continuously engaging teams, we are able to respond to the ever-changing business environment. Our drive for self-development that is being embedded in our culture has seen us maintain a competitive edge in our businesses.

TEAMWORK & TRUST

Today, more than ever, we recognise that trust is an essential asset to foster collaboration, drive engagement and deepen teamwork to manage the never-ending process of change. During the course of the year, a consultant was employed to evaluate the entire management team to determine to what extent they were embracing *The Unga Way of Leading*. The assessment was based on the DiSC 363 (Dominance, Influence, Stability, Compliance) Leadership Dimension Model. Within the team, weakness was identified around people-oriented influence and people-oriented stability; initiatives were subsequently implemented to address these opportunities to improve our leadership competency.

The most important of these initiatives was the contracting of African Management Initiative (AMI) to facilitate a 12 month Leadership Development program targeted at the management team, incorporating classroom and online learning with hands-on Action Learning Projects (ALP); the six ALP's selected were led by members of senior management and focused on real-life challenges being faced by each of the operating entities. This program is designed to support managers to lead by influence, to empower their teams, to build a culture of ownership and to coach in order to allow their teams to grow. AMI also facilitated a concurrent 12 month online + 3 month classroom program for our Supervisors.

At the onset of the year, our human resources department adopted the Human Resources Business Partnering (HRBP) approach to enhance direct support to the business units. The HRBP positions were developed to align business objectives with employees and management, where the HRBP communicates HR-related needs proactively and seeks to develop integrated solutions. The HRBP's also fill the role of the primary inter-group functional resource in the areas of HR Operations, Performance Management, Reward & Recognition and Talent Acquisition & Retention.

Going forward, the Company will be commissioning a follow-up Culture Survey to that carried out in 2016, in order to measure progress on our transformation journey and to identify new actions. Additionally, it plans to work with Deloitte's South African office to participate in its 'Best Company to Work For' survey which will allow us to measure employment engagement levels and to benchmark ourselves with the 2106 results and with other participants.

We continue to work to deepen our engagement with employees in order to retain talent and create environments that are rewarding and satisfying. We understand the importance of communication and keep our stakeholders, consumers and staff informed through our website and social media.

APPRECIATION

In support of our *Hoshin Kanri* inspired 'Unga Performance Management System', we actively measure our performance through agreed Key Performance Indicators (KPIs) at every level. For the year 2017 – 2018, regardless of the environment, we made much progress in improving these KPIs. We have further strengthened the organisation and remain focused on our Vision, '*Nutrition For Life*'.

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.

Nick Hutchinson

Group Managing Director



DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 30 June 2018, 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 grew by 2% over prior year. Profit before tax from continuing operations improved by 469%, a notable recovery from the very depressed performance of the prior year. Discontinuation of operations at the Ugandan subsidiary shielded the Group from some of the losses suffered in the preceding year, in which an investment impairment was recorded.

In the animal nutrition and health business, overall feed volumes increased significantly with most categories recording positive growth. This was attributable to the sustained supply of competitively priced and high quality products, supported by effective sales and marketing strategies. The availability of well-priced yellow maize ensured that farmers were able to realise a fair return on their production of meat, milk and eggs.

The human nutrition business experienced mixed performance. During the first half of the year, the Government-directed maize subsidy program enabled the Company to sell its Jogoo® and Hodari® brands at the same price as the competition; consumers responded positively, an affirmation that the brands remain a preferred choice for many. Unfortunately, the Company was not allowed to sell Hostess®, its premium maize meal brand, during the same period, leading to the loss of loyal customers; slow but positive progress to regain market presence has been made during the second half of the year. After a very successful first half, low demand and aggressive price-based competition leading to an unfavourable grain inventory position marred the second half. Porridge (Famila®), pulses and rice (Amana®) volumes experienced solid growth over prior year, driven by increased marketing activities and improved penetration.

The Group continues to roll-out the new strategy for Ennsvalley bakery business to recover its revenue base following closure of all in-store operations with Nakumatt; of which one element is opening new in-store counters in partnership with leading supermarket chains.

During the year, the Company introduced new products whose penetration efforts are ongoing. Fugo® tilapia fish feeds are now widely available and exploration of regional market opportunities is ongoing.

The new 300 tonnes per day wheat mill in Eldoret is scheduled for commissioning in October 2018.

The Company will be installing a soya meal production facility at the Dakar Road plant during the course of the 2018/19 FY.

Summary financial performance

	2018 Shs'000	2017 Shs'000
Revenue	19,982,070	19,528,785
Gross profit	3,311,063	2,279,387
Gross profit margin	17%	12%
Operating profit	1,273,403	237,868
Profit for the year from continuing operations	788,774	111,912
Loss for the year from discontinued operations	(5,571)	(118,951)
Profit/(Loss) profit for the year	783,203	(7,039)
Total assets	9,932,664	9,455,316

RESULTS AND DIVIDEND

The profit attributable to equity holders of Shs 509,082,000 (2017: Shs 37,371,000) has been added to retained earnings. The directors recommend payment of a first and final dividend of Shs 1.00 (2017: Shs 1.00) per share amounting to Shs 75,706,986 (2017: 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

The directors who served during the year and to the date of this report are set out on page 1.

DISCLOSURES TO AUDITORS

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

- there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and
- 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 27 September 2018.

By order of the Board



Winniefred N Jumba

SECRETARY

DIRECTORS REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2018

Dear Shareholder

I am pleased to present to you, on behalf of the Board, the Directors' Remuneration Report for the year ended 30 June 2018.

The Nominations and Remuneration Committee has prepared this report in accordance with the requirements of the Companies Act 2015 ("the Act") and the Capital Markets Code of Corporate Governors for Issuers of Securities ("the CMA Code).

1.0 INFORMATION NOT SUBJECT TO AUDIT

1.1. Introduction

The Board of Directors has set out to implement a Remuneration policy through the Board Nominations and Remuneration Committee (BNRC) whose primary mandate is to ensure that the Board comprises of individuals with the requisite skills, knowledge and experience, reviewing the performance of the Board, succession planning and 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's operations were suspended for a better part of the year as the Board focused its attention on the take-over offer dated 7 February 2018 from 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"). As a result of the transaction, some members of the Committee were conflicted in their role and had recused themselves from participating in the activities of the Board during the Transaction period.

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 Nominations and Remuneration Committee's responsibilities have been set by the Board and are outlined in the Board Charter and the BNRC's terms of reference which 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.

Link to Strategy

The Board of Directors continues to implement the 2017 to 2022 Strategic plan which will transform the Group to its newly adopted Vision of 'Nutrition for Life.'

The Board has identified operational KPIs which are closely monitored by the Board Investment and Operations Committee and the Board Human Resources Committee. The KPIs have been integrated into individual performance targets.

The major objective of the Directors Remuneration Policy is to ensure that there is a clear link between the Executive Director(s)' individual 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.

1.2. Commentary on Significant Changes to Directors Remuneration

The Remuneration Policy has been enumerated in the next section.

During the year, the Committee's work was centred on overseeing the implementation of the policy. There were no changes in the non-executive Directors remuneration (fees and allowances).

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. It is our view that the Company's reward arrangements best support the achievement of the Company's short-term and long-term goals. To that end, we hereby recommend that you approve the Directors' Remuneration Policy following this report to guide decisions on Directors' Remuneration that will be taken during the current financial year.

1.3. Statement of Voting on the Directors Remuneration Report at the previous Annual General Meeting.

During the Annual General Meeting held on 5 December 2017, the shareholders in attendance approved the Directors' Remuneration Report and payment of Directors fees for the year ended 30 June 2017 by show of hands.

At the Annual General Meeting to be held on 6 December 2018, the shareholders will also consider the Directors' Remuneration Report for the year ended 30 June 2018.

1.4. The Current Directors' Remuneration Policy and Strategy

Scope & Application of the Policy

The policy will apply to the members of the Unga Group Plc Board of Directors. Compliance levels will be monitored on a regular basis and results reviewed by the Board Audit and Risk Committee.

Key Aspects of the Policy

1.4.1. Remuneration Principles

Unga Group Plc is a company with a global management team, competing for talent in a demanding environment. The company's ability to attract and retain the high calibre executives required to lead a highly complex business is important for shareholders.

The policy has been designed to reflect the global nature of the Company's business and talent pool. The competitive market for top executives both within the manufacturing sector and more broadly provides an important reference point, but is only one of a number of factors considered when the company sets pay.

The principles which underpin the remuneration of the Non-Executive Directors (NED)s 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 recognized 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 following principles underpin Company's approach to remuneration for Executive Directors.

Simplification	Link to strategy	Shareholder Alignment	Stewardship
Simple, transparent and fair approach	- A reasonable proportion is variable and linked to the delivery of Unga's strategy. - Package is intended to vary with performance	Outcomes are intended to reflect performance	Focus on long term sustainable performance

The policy is intended to provide a simplified approach with a clear link between the delivery of Company's strategy and pay, while reflecting the outcomes for shareholders. The policy has also considered recent developments in Kenya's legal and regulatory environment with regards to Directors' remuneration and best practice.

How are performance measures linked to strategy under the policy?

Variable pay is linked to performance measures designed to deliver the Company strategy. At the start of each year, the Board Human Resources Committee ("BHRC") reviews the measures, targets and weightings to ensure they remain consistent with the priorities in the annual plan and the Group strategy. For the annual bonus, the approach to performance measurement is intended to provide a balance of measures to assess performance reflecting individual and company performance.

Flexibility, judgement and discretion

The BHRC is empowered to make quantitative and qualitative assessments of performance in reaching its decisions. This involves the use of judgement and discretion within a transparent framework. The BHRC continues to consider that the powers of flexibility, judgement and discretion are critical to the successful execution of the policy.

In framing the policy, the BHRC has taken care to ensure that these important powers continue to be available:

- Sufficient flexibility to take account of future changes in the industry environment and in remuneration practice generally. This allows the BHRC to respond to changes in circumstances, for example in applying particular performance measures within the plans which may need to evolve with the Company's strategy, without the need for specific shareholder approval.
- Power to exercise judgement in making a qualitative assessment in certain circumstances. A number of measures are used for annual or long-term incentive awards, many of which are numerical in nature and require a quantitative assessment of performance. Others may require a qualitative assessment.
- Scope for the BHRC to exercise discretion, mainly where it is desirable to vary a formulaic outcome that would otherwise arise from the policy's implementation. The BHRC considers that the ability to exercise reasonable discretion, upwards or downwards, is important to ensure that a particular outcome is fair in light of the director's own performance, the Company's overall performance and positioning under particular performance measures and outcomes for shareholders. In accordance with best practices, areas where the remuneration policy provides for the exercise of discretion are identified in this report.

The Committee intends to provide appropriate disclosure on the use of discretion so that shareholders can understand the basis for its decisions.

Safeguarding against payments for failure

Performance Based Pay – A significant portion of the remuneration of the Executive Director(s) varies with performance – where performance targets are not achieved, lower or no payments will be made under the plans.

Discretion – the Committee may vary formulaic outcomes where these do not suitably reflect performance over the relevant performance period.

1.4.2. Executive Director

a. Salary and benefits

Purpose	To provide fixed remuneration to reflect the scale and complexity of both the business and the role, and to be competitive with the external market.	
Operation and Opportunity	Salary - Executive Directors are entitled to a salary only. No separate Director's fees are paid. - Salary levels take into account the nature of the role, performance of the business and the individual, market positioning and pay conditions within Unga Group Plc. When setting salaries, the BHRC considers practice in other manufacturing companies of a similar size, geographic spread and business dynamic to the Company. - Salaries are normally set in the home currency of the Executive Directors and are reviewed annually. They may be reviewed at other times where appropriate, for example following a major role change. - Salary levels are specific to the role and individual and therefore there is no maximum salary under the policy. However, when reviewing salaries for Executive Directors, the committee will consider salary increases for the most senior management and for employees. Percentage increases for Executive Directors will not exceed that of the broader employee population, other than in specific circumstances identified by the BHRC (e.g. in response to a substantial change in responsibilities). - The Executive Directors' salaries will be as determined by the BHRC and approved as required under the Company's and Regulatory approval frameworks.	Benefits - Executive Director's salaries will be maintained until reviewed by the Board from time to time. - Executive Directors are entitled to receive those benefits available to all Company employees generally. - Benefits are not pensionable. - Executive Directors may receive other benefits that are judged to be cost effective and appropriate in terms of the individual's role, time and/or security. These include car-related benefits or cash in lieu, driver, security, assistance with tax return preparation, insurance and medical benefits. The Company may meet any tax charges arising on business-related benefits provided to Executive Directors.

Share awards	The Group does not operate an Employee Share Ownership Scheme.
Performance framework	The salary reviews are conducted annually in line with the Company's Human Resources Plan with changes, if any, effective from 1 July of each financial year as would have been approved by the Company's Board.
b. Annual Bonus	
Purpose	To provide variable remuneration dependent on the performance of the Company and focus attention on the Group's KPIs; to reward the achievement of financial, operational and individual targets and provide a competitive performance related annual earnings opportunity.
Operation and Opportunity	- The bonus pay is a short-term based pay, that will be based on the Executive Directors' performance against annual measures and targets set at the start of the year, evaluated over the financial year and assessed following the year end. - The bonus payment is implemented in accordance with an approved Compensation philosophy for the period 2014 to 2018. 85% of opportunity is based on corporate achievement and 15% on individual performance. - The bonus pool will be unlocked upon attainment of 85% of budgeted profit before tax. The Executive Directors will be entitled to bonus pay that will be a percentage of gross annual salary as approved by the Board of Directors. - Normally, any such bonus would be restricted to the director's actual period of service in that financial year. 100% of the award is paid in cash soon after approval by the Board of Directors. - The awards are not subject to malus and clawback provisions.
Performance framework	- The BHRC determines specific measures, weightings and targets each year to reflect the priorities in the annual plan, which is designed to deliver the Group's strategy and is approved by the board. - Measures will typically include a balance of financial, operational and individual measures. - Details of the corporate performance measures applicable in the current financial year are contained in the Group Variable pay out policy. - The BHRC intends to disclose targets for the annual bonus retrospectively.

c. Recruitment Policy

The BHRC expects any new Executive Director to be engaged on terms that are consistent with the policy. However, it recognizes that it cannot anticipate circumstances in which any new Executive Director may be recruited. The Committee may determine that it is in the interests of the Company and shareholders to secure the services of a particular individual which may require it to take account of the terms of that individual's existing employment and/or their personal circumstances.

Accordingly, the BHRC will ensure that:

- The salary level of any new Executive Director is appropriate to their role and the competitive environment at the time of appointment. Where appropriate it may appoint an individual on a lower salary, then gradually increase salary levels as the individual gains experience in the role.
- Variable remuneration will be awarded within the parameters of the policy.
- The BHRC would expect any new Executive Director to participate in the Company pension and benefit schemes that are open to other senior employees but would take into account the Executive Director's existing arrangements and market norms.
- Where an individual is relocating in order to take up the role, the Company may provide certain one-off benefits such as reasonable relocation expenses, accommodation for a period of time following appointment, assistance with visa applications or other immigration issues and ongoing arrangements such as tax equalization, annual flights home and a housing allowance.
- Where an individual would be forfeiting remuneration or employment terms in order to join the Company, the BHRC may at its discretion award appropriate compensation. The BHRC would require reasonable evidence of the nature and value of any forfeited arrangements and would, to the extent practicable, ensure any compensation was of comparable commercial value and capped as appropriate, taking into account the terms of the previous arrangement being forfeited (for example the form and structure of award, timeframe, performance criteria and likelihood of vesting). Where appropriate, the BHRC would have a preference for buy-outs to be delivered in the form of cash.

In making any decision on the remuneration of a new Executive Director, the BHRC would balance shareholder expectations, current best practice and the circumstances of any new Executive Director. It would strive not to pay more than is necessary to recruit the right candidate and would give full details in the next remuneration report.

Note: At present there is only one Executive Director namely the Group Managing Director (GMD).

d. Employment Contract

The GMD's employment contract will be held with Unga Holdings Limited and/or any entity within the Group as will be determined by the Board from time to time.

He is entitled to the following contractual benefits:

- Group Medical Insurance
- Group Life Assurance
- Critical Illness Cover
- Car Allowance
- Indemnification in accordance with applicable law.
- Participation in bonus or incentive arrangements at the Committee's sole discretion.

e. Retirement Benefits	
Purpose	To recognize competitive practice in home country
Operation and Opportunity	- The GMD is entitled to pension provision through the Company's defined contribution plan for all permanent employees. The employer's contribution as a percentage of basic salary is 7.5% and the GMD's contribution is 7.5%. - The participant may opt to remain a member of the Company's defined benefit plan even upon leaving the Company. - The level of contribution is higher than the market rate which provides for 6%.
Performance framework	Retirement benefits in Kenya are not directly linked to performance. They reflect local market practice.
f. Payment for loss of office	
The GMD may terminate his employment by giving 12 months' written notice. In this event, for business reasons, the employer may not necessarily hold the GMD to the full notice period. The employer may lawfully terminate the GMD's employment in the following ways: - By giving the GMD 12 months' written notice. - Without compensation, in circumstances where the employer is entitled to terminate for cause, as defined for the purposes of the employment contract. The lawful termination mechanisms described above are without prejudice to the employer's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby to be liable for damages to the GMD. In the event of termination by the Company, the Executive Director may have an entitlement to compensation in respect of their statutory rights under employment protection legislation in the Kenya and potentially elsewhere.	
g. Termination Payments	
An Executive Director's employment contract may be terminated either through; - Voluntary Termination – Through wilful termination by the Executive Director; - Involuntary Termination – By reason of disability, retrenchment, retirement or as determined by the Board in good faith; and - Adverse Termination – By reason for cause (e.g. serious misconduct, negligence, criminal guilt, bankruptcy, poor performance and/or any other material breach of their employment contract). In determining overall termination arrangements, the BHRC will distinguish between types of termination and the circumstances of the termination. The BHRC would also consider all relevant circumstances, including whether a contractual provision in the Director's arrangements complied with best practice at the time of termination and the date the provision was agreed, as well as the performance of the Director in certain respects. Where appropriate, the BHRC may consider providing certain benefits relating to termination including the provision of outplacement support.	

Should it become necessary to terminate an Executive Director's employment, and therefore to determine a termination payment, the policy is as follows:-

Termination payment	- The Executive Director's primary entitlement would be a termination payment in respect of their Employment Agreement. However the BHRC will consider mitigation to reduce the termination payment where appropriate to do so, taking into account the circumstances for leaving and the terms of the agreement. Mitigation would not be applicable where a contractual payment in lieu of notice is made. - If the departing Executive Director is eligible for an early retirement pension, the BHRC would consider, if relevant under the terms of the appropriate plan, the extent of any actuarial reduction that should be applied.
Annual Bonus	- The Committee would consider whether the Executive Director should be entitled to an annual bonus in respect of the financial year in which the termination occurs. - Normally, any such bonus would be restricted to the Executive Director's actual period of service in that financial year.
Share awards	The Group does not operate an Employee Share Ownership Scheme.

h. Long Term Incentives

The Company does not have long term incentive schemes This will be put in place in future and linked to strategy.

i. Remuneration in the wider group

The BHRC considers employment conditions in the Group when establishing and implementing policy for Executive Directors to ensure the alignment of and context for principles and approach. In particular, the Committee reviews the policy for the most senior leaders.

Decisions regarding remuneration for employees outside the group leaders are the responsibility of the Group Managing Director. The BHRC does not consult directly with employees when formulating the policy.

However, feedback from employee surveys, which are regularly reported to the Board, provide views on a wide range of employee matters including pay.

The wider employee group participates in performance-based incentives. Throughout the Group, base salary and benefit levels are set in accordance with the prevailing relevant market conditions and practice.

Differences between Executive Director pay policy and that of other employees reflect the senior position of the individuals, prevailing market conditions and corporate governance practices in respect of executive director remuneration.

1.4.3. Non-Executive Directors	
a. Non – Executive Chairman	
Fees	
Approach	Remuneration is in the form of an annual honorarium and sitting allowances for Board and Board Committee meetings. The level and structure of the Chairman's remuneration will primarily be compared against Kenyan best practice.
Operation and Opportunity	The quantum and structure of the Chairman's remuneration is reviewed annually by the BNRC, which makes a recommendation to the Board.
Benefits and expenses	
Approach	The Chairman is provided with support and reasonable travelling expenses.
Operation and Opportunity	All reasonable travelling, accommodation and other expenses (including any relevant tax) incurred in carrying out duties as Chairman are reimbursed. The rates applicable for reimbursements are in line with internally approved scales applicable to the Executive Director(s). Indemnification and Insurance i.e. Non-Executive Directors have the benefit of indemnity in relation to liability incurred in their capacity as a Director of the Company.
b. Non – Executive Directors	
i. Fees	
Approach	Remuneration is in the form of an annual honorarium and sitting allowances for Board, Board Committee meetings, Strategy meetings and trainings. Remuneration practice is consistent with recognized best practice standards for non-executive directors' remuneration and, as a Kenyan-listed company, the level and structure of Non-Executive Directors' remuneration will primarily be compared against Kenyan best practice. Additional fees may be payable to reflect additional board responsibilities, for example, Committee Chairmanship and membership and for the role of senior independent director.
Operation and Opportunity	Subject to undertaking the appropriate research, the level and structure of Non-Executive Directors' pay structure and scale is recommended by the BNRC to the Board for implementation subject to approval by the Company's shareholders' at a General meeting. Remuneration for Non-Executive Directors is reviewed annually.
ii. Benefits and expenses	
Approach	Non-Executive Directors are provided with administrative support and reasonable travelling expenses. Professional fees are reimbursed in the form of cash, payable following the provision of advice and assistance.
Operation and Opportunity	Non-Executive Directors are reimbursed for any pre-approved consultancy fees, all reasonable travelling and subsistence expenses (including any relevant tax) incurred in carrying out their duties. The rates applicable for reimbursements are in line with internally approved scales applicable to the Executive Director(s). Indemnification and Insurance i.e. Non-Executive Directors have the benefit of indemnity in relation to liability incurred in their capacity as a Director of the Company.

This Policy has been sanctioned by the Board of Directors and may be amended from time to time as circumstances may warrant.

Review

The remuneration system described in this report will be applicable in future years, unless otherwise determined by regulation or in the light of changes in circumstances.

The above notwithstanding, the BNRC shall, in performance of its duties as prescribed in the Board Charter and in the BNRC's Terms of Reference, periodically review the Board of Directors' remuneration policy. Any changes to this policy shall be considered by the Board of Directors prior to tabling the same at a General meeting for consideration by the Shareholders.

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 Shareholders for approval.

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 2018 together with the comparative figures for 2017. The aggregate Directors' emoluments are shown in note 33(iv) of the audited financial statements.

For the year ended 30 June 2017	Salary	Fees	Bonuses	Expense allowances	Estimated value for non cash benefits*	Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Nicholas Hutchinson**	24,973	-	5,650	793	8,157	39,573
Isabella Ochola Wilson	-	3,855	-	-	-	3,855
Alan McKittrick	-	2,375	-	-	-	2,375
Andrew Stewart	-	-	-	-	-	-
Ndegwa***	-	2,755	-	-	-	2,755
Patrick Obath	-	2,390	-	-	-	2,390
Jinaro Kipkemoi Kibet	-	2,355	-	-	-	2,355
Vitalis Ondeke Ojode	-	1,815	-	-	-	1,815
Shilpa Haria	-	1,265	-	-	-	1,265
	24,973	16,810	5,650	793	8,157	56,383
For the year ended 30 June 2018						
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

*Non cash benefits include car and housing benefit.

**The Group Managing Director's remuneration for the year ended 30 June 2017 has been restated to include the portion of his remuneration that is recharged to the company by Seaboard Corporation.

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

During the 2017 Annual General meeting, the shareholders in attendance approved the payment of the Directors' fees for the year ended 30 June 2017 by a show of hands.

On behalf of the Board of Directors



Patrick Obath
 Chairman, Nomination and Remuneration Committee

27 September 2018

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 Group and 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 Group and Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 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 then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the directors have assessed the Group's and Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Group and Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the Board of Directors on 27 September 2018 and signed on its behalf by:

I Ochola- Wilson (Mrs)

Director

N Hutchinson

Director



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 29 to 83, which comprise the consolidated statement of financial position at 30 June 2018 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 profit or loss and other comprehensive income, Company statement of financial position at 30 June 2018, the statement of changes in equity and statement of 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 2018 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<i>Information technology (IT) systems and controls</i> The Group implemented SAP, a fully integrated financial accounting and reporting system, effective 1 January 2016 and has continued to add modules to enhance the system. Information systems are key to the Group. Any errors, mistakes, incorrect access rights and omissions from the systems can have a significant impact on the financial statements. Further, the design and operating effectiveness of the controls incorporated in SAP is important to ensure the reliability of the information produced by the system. There is a risk that automated accounting procedures and IT dependent controls on key business processes are not operating effectively.	We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required We tested the Information Technology General Controls (ITGCs) that ensure accuracy, completeness and validity of data processing. This entailed the review of access controls to information and the underlying system and plans put in place by management to ensure consistent and continuous production of reliable information. We tested relevant application controls within the IT system that management relies on to run the business effectively. We re-performed selected automated computations and compared our results with those from the system and the general ledger. Further, we reviewed key reconciliations between the sub-ledgers and the general ledger. We tested significant manual journals processed into the system during the period.

Other information

The other information comprises the Corporate Information, Chairman's Statement, Group Managing Director's Statement, 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.



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

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.

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.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNGA GROUP Plc
(CONTINUED)**

- 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

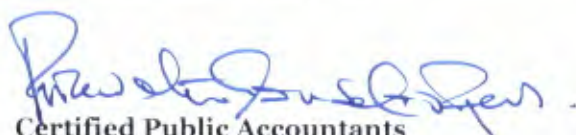
Report of the directors

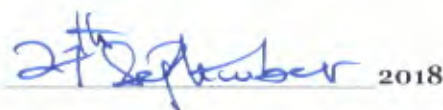
In our opinion the information given in the report of directors' report on pages 10 to 12 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on page 23 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Michael Mugasa – P/No. 1478.


Certified Public Accountants
Nairobi


27 September 2018

Consolidated statement of profit or loss

For the year ended 30 June	Notes	2018 Shs'000	2017 Shs'000 Restated
Revenue	5	19,982,070	19,528,785
Cost of sales		(16,671,007)	(17,249,398)
Gross profit		3,311,063	2,279,387
Other income	8	55,254	64,527
Selling and distribution costs		(900,708)	(883,634)
Administrative expenses		(1,192,206)	(1,222,412)
Operating profit		1,273,403	237,868
Finance income	10	116,649	67,415
Finance costs	10	(90,786)	(76,933)
Profit before income tax		1,299,266	228,350
Income tax expense	13	(510,492)	(116,438)
Profit for the year from continuing operations		788,774	111,912
Loss for the year from discontinued operations	30	(5,571)	(118,951)
Profit/ (loss) for the year		783,203	(7,039)
Attributable to:			
Owners of the parent			
- Profit for the year from continuing operations		512,703	114,689
- Loss for the year from discontinued operations		(3,621)	(77,318)
		<u>509,082</u>	<u>37,371</u>
-			
Non-controlling interests			
- Profit for the year from continuing operations		276,071	(2,777)
- Loss for the year from discontinued operations		(1,950)	(41,633)
		<u>274,121</u>	<u>(44,410)</u>
		<u>783,203</u>	<u>(7,039)</u>

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

Basic and diluted earnings per share	2018	2017
From continuing operations	6.77	1.51
From discontinued operations	(0.05)	(1.02)
Basic and diluted earnings per share	<u>6.72</u>	<u>0.49</u>

Consolidated statement of comprehensive income

For the year ended 30 June	Notes	2018 Shs'000	2017 Shs'000
Profit / (loss) for the year		783,203	(7,039)
Other comprehensive income for the year			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Re-measurement of retirement benefit scheme asset	28	136	9,268
Deferred income tax thereon		(41)	(2,781)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences on foreign operations		(8,961)	(5,503)
Total other comprehensive (loss) / income for the year		(8,866)	984
Total comprehensive income / (loss) for the year		774,337	(6,055)
Attributable to;			
Owners of the parent		503,319	38,011
Non-controlling interest		271,018	(44,066)
		774,337	(6,055)

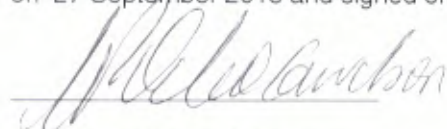
Company statement of profit or loss and other comprehensive income

For the year ended 30 June	Notes	2018 Shs'000	2017 Shs'000
Revenue	5	-	75,707
Administrative expenses		(43,603)	(17,571)
Operating profit		(43,603)	58,136
Finance income	10	22,054	16,277
(Loss) / Profit before income tax		(21,549)	74,413
Income tax expense		-	(3,595)
(Loss) /profit for the year		(21,549)	70,818
Other comprehensive income, net of tax		-	-
(Loss) / profit for the year		(21,549)	70,818
Other comprehensive income		-	-
Total comprehensive (loss) / income		(21,549)	70,818

Consolidated statement of financial position

At 30 June	Notes	2018 Shs'000	2017 Shs'000 Restated	2016 Shs'000 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	24	3,194,280	2,611,572	2,070,158
Prepaid operating lease rentals	25	18,354	27,359	28,973
Intangible asset	26	74,300	166,343	359,084
Retirement benefits asset	28	24,674	17,937	41,306
Deferred income tax	19	25,234	32,734	32,276
		<u>3,336,842</u>	<u>2,855,945</u>	<u>2,531,797</u>
Current assets				
Inventories	20	2,689,813	2,321,807	2,562,374
Trade and other receivables	21	2,813,438	2,440,699	2,072,418
Current income tax		4,116	122,110	82,611
Cash and bank balances	29	1,088,455	1,714,755	1,102,359
		<u>6,595,822</u>	<u>6,599,371</u>	<u>5,819,762</u>
TOTAL ASSETS		<u><u>9,932,664</u></u>	<u><u>9,455,316</u></u>	<u><u>8,351,559</u></u>
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	14	378,535	378,535	378,535
Share premium		73,148	73,148	73,148
Other reserves	15	(31,329)	(25,566)	(26,206)
Retained earnings		<u>3,367,537</u>	<u>2,934,162</u>	<u>2,820,001</u>
			<u>3,360,279</u>	<u>3,245,478</u>
Non-controlling interests	16	1,821,184	1,550,166	1,857,494
Total equity		<u><u>5,609,075</u></u>	<u><u>4,910,445</u></u>	<u><u>5,102,972</u></u>
LIABILITIES				
Non-current liabilities				
Post-employment benefits	18	9,351	17,151	97,098
Deferred income tax	19	356,202	370,079	298,286
Borrowings	17	815,363	131,688	321,315
Capital Grants	23		45,409	-
		<u>1,244,070</u>	<u>564,327</u>	<u>716,699</u>
Current liabilities				
Trade and other payables	22	2,611,469	3,761,792	2,284,368
Current income tax		391,224	5,315	103,470
Borrowings	17	76,826	213,437	144,050
		<u>3,079,519</u>	<u>3,980,544</u>	<u>2,531,888</u>
Total liabilities		<u><u>4,323,589</u></u>	<u><u>4,544,871</u></u>	<u><u>3,248,587</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>9,932,664</u></u>	<u><u>9,455,316</u></u>	<u><u>8,351,559</u></u>

The financial statements on pages 29 to 83 were approved for issue by the Board of Directors on 27 September 2018 and signed on its behalf by:



I Ochola- Wilson (Mrs)
Director



N Hutchinson
Director

Company statement of financial position

At 30 June	Notes	2018 Shs '000	2017 Shs '000
ASSETS			
Non-current assets			
Investments in subsidiaries	27	1,297,335	1,297,335
Total non-current assets		1,297,335	1,297,335
Current assets			
Trade and other receivables	21	142,807	134,945
Cash and bank balances	29	228,782	290,226
Total current assets		371,589	425,171
TOTAL ASSETS		1,668,924	1,722,506
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	14	378,535	378,535
Share premium		73,148	73,148
Retained earnings		906,469	1,003,725
Total equity		1,358,152	1,455,408
Current liabilities			
Trade and other payables	22	310,772	267,098
Total current liabilities		310,772	267,098
TOTAL EQUITY AND LIABILITIES		1,668,924	1,722,506

The financial statements on pages 29 to 83 were approved for issue by the Board of Directors on 27 September 2018 and signed on its behalf by:



I Ochola- Wilson (Mrs)

Director



N Hutchinson

Director

Consolidated statement of changes in equity

	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to equity holders	Non-controlling interests	Total
Year ended 30 June 2017	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At start of year							
-as previously stated	378,535	73,148	698,848	2,480,889	3,631,420	2,065,309	5,696,729
-reversal of revaluation surplus (Note 32)	-	-	(725,054)	339,112	(385,942)	(207,815)	(593,757)
-as restated	378,535	73,148	(26,206)	2,820,001	3,245,478	1,857,494	5,102,972
Profit for the year	-	-	-	37,371	37,371	(44,410)	(7,039)
Other comprehensive income for the year	-	-	640	-	640	344	984
Total comprehensive income for the year	-	-	640	37,371	38,011	(44,066)	(6,055)
Transactions with owners							
Acquisition	-	-	-	152,497	152,497	(222,497)	(70,000)
Dividend paid to equity holders	-	-	-	(75,707)	(75,707)	-	(75,707)
Dividend paid to non - controlling interests	-	-	-	-	-	(40,765)	(40,765)
At end of year	378,535	73,148	(25,566)	2,934,162	3,360,279	1,550,166	4,910,445

Consolidated statement of changes in equity (continued)

	Share capital	Share premium	Other reserves	Retained earnings	Equity attributable to equity holders	Non- controlling interests	Total
Year ended 30 June 2018	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At start of year							
-as previously stated	378,535	73,148	674,484	2,594,807	3,720,974	1,757,981	5,478,955
-reversal of revaluation surplus (Note 32)	-	-	(700,050)	339,355	(360,695)	(207,815)	(568,510)
-as restated	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

Company statement of changes in equity

	Share Capital Shs'000	Share Premium Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 30 June 2017				
At start of year	378,535	73,148	1,008,614	1,460,297
Total comprehensive income	-	-	70,818	70,818
Transactions with owners				
Dividends paid	-	-	(75,707)	(75,707)
At end of year	378,535	73,148	1,003,725	1,455,408
Year ended 30 June 2018				
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

Consolidated statement of cash flows

		Year ended 30 June	
	Notes	2018 Shs'000	2017 Shs'000
Operating activities			
Cash generated from operations	29	(116,379)	1,818,645
Income tax paid		(33,591)	(175,985)
Interest paid		(87,131)	(47,341)
Net cash from operating activities		(237,101)	1,595,319
Investing activities			
Purchase of property, plant and equipment	24	(875,768)	(791,410)
Purchase of intangible assets	26	(8,464)	(19,706)
Proceeds of disposal of property, plant and equipment		5,923	9,262
Net cash used in investing activities		(878,309)	(801,854)
Financing activities			
Dividends paid to equity holders	7	(75,707)	(75,707)
Dividends paid to non - controlling interests	16	-	(40,765)
Proceeds from borrowings	17	742,606	-
Repayments of borrowings	17	(195,542)	(120,240)
Capital grants received	23	20,738	45,599
Net cash from / (used in) financing activities		492,095	(191,113)
Net (decrease) / increase in cash and cash equivalents		(623,315)	602,352
Movement in cash and cash equivalents			
At start of year		1,714,755	1,102,359
(Decrease) / increase		(623,315)	602,352
Effects of exchange rate changes		(2,985)	10,044
At end of year	29	1,088,455	1,714,755

Company statement of cash flows

		Year ended 30 June	
	Notes	2018 Shs'000	2017 Shs'000
Operating activities			
Cash generated from operations	29	14,263	93,750
Net cash from operating activities		14,263	93,750
Financing activities			
Dividends paid to shareholders	7	(75,707)	(75,707)
Net cash used in financing activities		(75,707)	(75,707)
Net increase in cash and cash equivalents		(61,444)	18,043
Movement in cash and cash equivalents			
At start of year		290,226	272,183
(Decrease)/ increase		(61,444)	18,043
At end of year	29	228,782	290,226

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 Group

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

Amendment to IAS 12 – Income taxes, the amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.

Amendment to IAS 7 – Cash flow statements, the amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Group and Company. The standards expected to have an impact on the financial statements of the Group and Company are set out below:

IFRS 9 Financial instruments Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through Profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is expected to mainly impact impairment provision on receivables but it's not currently considered likely to have any major impact on the Group's current accounting. The standard is mandatory for financial years commencing on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards, amendments and interpretations not yet adopted (continued)

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The Group has estimated the impact of the new standard on the Group's financial statements. If IFRS 15 had been adopted in the current financial year, the reported revenues would increase by 0.25%. The directors, therefore, have concluded that the adoption of the new standard will not have a significant impact on the Group and company. The new standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 Leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. Early adoption is permitted only if IFRS 15 is adopted at the same time. The directors do not anticipate the standard to have a significant impact on the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Consolidation

(i) Subsidiaries

Subsidiaries 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(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.

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(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 recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

- (i) Sales of goods are recognised in the period in which the Group has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery does not occur until the products have been accepted by the customer.

No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with the market practice. The Group does not operate any loyalty programmes.

- (ii) Interest income is recognised on a time proportion basis using the effective interest method. Interest income is recognised using the effective interest rate method.
- (iii) Dividends are recognised as income in the period in which 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 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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.

Previously property, plant and equipment were carried at cost or as professionally revalued less accumulated depreciation and any impairment losses as explained in Note 32.

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.

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 costs 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Computer software (continued)

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) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition and re-evaluates such designation at every reporting date.

i) Classification

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Group's loans and receivables comprise 'receivables and prepayments', 'non-current receivables and prepayments' and 'cash and cash equivalents' in the statement of financial position.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Financial assets (continued)

a) *Offsetting financial instruments*

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

b) *Impairment of financial assets*

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio;
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Financial assets (continued)

b) Impairment of financial assets (continued)

Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria referred to under 'assets carried at amortised cost' above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(k) Accounting for leases

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 are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, vehicles and equipment. Leases of property, vehicles and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, vehicles and equipment acquired under finance leases are depreciated over the shorter of the assets useful life and the lease term.

(l) 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.

(m) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) 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.

(p) 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.

(q) Employee benefits

(i) Retirement benefit scheme assets

The Group operates defined benefit retirement benefit 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 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 schemes.

(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. The obligation under the scheme is recognised based on actuarial valuation. 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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.

(u) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(u) Provisions (continued)

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.

(v) 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.

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

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, 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. 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.

Notes (continued)

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 2018, an increase/decrease by 100 basis points in interest rates would have resulted in a decrease/increase in post-tax profit of Shs 1,028,805 (2017: Shs 3,451,240).

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 2018 and 30 June 2017, the Group and company did not hold investments that would be subject to price risk; hence this risk is not relevant.

(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 2018, 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 7,604,916 (2017: Shs 62,333,214) 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.

Notes (continued)

4 Financial risk management objectives and policies (continued)

Credit risk

Credit risk is managed on a Group-wide basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority. The Group management assesses the credit quality of each customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

The amount that best represents the Group's and Company's maximum exposure to credit risk is the carrying value of its financial assets in the statement of financial position adjusted for the following:

Group	Fully performing	Past due	Impaired	Total
At 30 June 2018	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables (Note 21)	746,603	149,719	420,148	1,316,470
Bank balances (Note 29)	860,024	-	-	860,024
Call deposits (Note 29)	226,377	-	-	226,377
Other receivables (Note 21)	863,945	-	-	863,945
Due from related parties (Note 33)	522,782	-	-	522,782
Provision for impairment	-	-	(420,148)	(420,148)
	3,219,731	149,719	-	3,369,450

Notes (continued)

4 Financial risk management objectives and policies (continued)

Credit risk (continued)

Group	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
At 30 June 2017				
Trade receivables (Note 21)	1,040,582	194,204	244,739	1,479,525
Bank balance (Note 29)	960,295	-	-	960,295
Call deposit (Note 29)	754,460	-	-	754,460
Other receivables (Note 21)	547,165	-	-	547,165
Due from related parties (Note 33)	412,964	-	-	412,964
Provision for impairment	-	-	(244,739)	(244,739)
	<u>3,715,466</u>	<u>194,204</u>	<u>-</u>	<u>3,909,670</u>
Company				
At 30 June 2018				
Other receivables (Note 21)	44,547	-	-	44,547
Bank balance (Note 29)	2,405	-	-	2,405
Call deposits (Note 29)	226,377	-	-	226,377
Due from related parties (Note 33)	98,260	-	-	98,260
	<u>371,589</u>	<u>-</u>	<u>-</u>	<u>371,589</u>
At 30 June 2017				
Other receivables (Note 21)	45,090	-	-	45,090
Bank balance (Note 29)	1,059	-	-	1,059
Call deposits (Note 29)	289,167	-	-	289,167
Due from related parties (Note 33)	89,855	-	-	89,855
	<u>425,171</u>	<u>-</u>	<u>-</u>	<u>425,171</u>

The customers under the fully performing category are paying their debts as they continue trading.

The receivables that are past due relate to trade receivables overdue between 30 to 120 days. The receivables are not impaired and continue to be paid. The credit control department is actively following these receivables. Cash deposits of Shs 34,709,131 (2017: Shs 31,501,131) and bank guarantees amounting to Shs 1,189,020,000 (2017: Shs 1,154,570,000) are held as collateral for trade receivables.

The impaired amounts are fully provided for and the amount of loss incurred dealt with in profit or loss in the year of impairment.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Notes (continued)

4 Financial risk management objectives and policies (continued)

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 12% of the revenue of the Group (2017:11%). This customer has a high credit rating. All other sales are to a wide unrelated customer base

	2018	%	2017	%
	Shs'000		Shs'000	
Kenchic Limited	2,299,668	12%	2,166,351	11%
Others	17,682,402	88%	17,362,434	89%
Total	19,982,070	100%	19,528,785	100%

	2018	2017
	Shs'000	Shs'000
Sales from continuing operations	19,982,070	19,528,785
Sales from discontinued operations	107,216	577,262
	20,089,286	20,106,047

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.

Group	Below one year Shs'000	2-5 years Shs'000	Over 5 years Shs'000	Totals Shs'000
At 30 June 2018				
Liabilities:				
Trade and other payables (Note 22)	2,501,206	-	-	2,501,206
Due to related parties (Note 33)	110,263	-	-	110,263
Borrowings	86,813	1,182,501	111,526	1,380,840
	2,698,282	1,182,501	111,526	3,992,309

Notes (continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Group

At 30 June 2017

	Below one year Shs'000	2-5 years Shs'000	Over 5 years Shs'000	Totals Shs'000
Liabilities:				
Trade and other payables (Note 22)	2,828,479	-	-	2,828,479
Due to related parties (Note 33)	933,313	-	-	933,313
Borrowings	237,037	149,446	-	386,483
	3,998,829	149,446	-	4,148,275

Company

At June 2018

Liabilities:

	Below one year Shs'000	Over one year Shs'000	Totals Shs'000
Other payables (Note 22)	31,980	-	31,980
Due to related parties (Note 33)	278,792	-	278,792
	310,772	-	310,772

At June 2017

Liabilities:

Other payables (Note 22)	24,897	-	24,897
Due to related parties (Note 33)	242,201	-	242,201
	267,098	-	267,098

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.

Notes (continued)

4 Financial risk management objectives and policies (continued)

Capital management (continued)

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

Net cash reconciliation and gearing ratio	2018 Shs'000	2017 Shs'000
Equity	5,609,075	4,910,445
Borrowings (Note 17)	892,189	345,126
Less: cash and cash equivalents (Note 29 (b))	(1,088,455)	(1,714,755)
Net cash	(196,266)	(1,369,629)
Gearing ratio	0%	0%

5 Revenue

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Analysis of sales by category:				
Human nutrition	10,615,256	10,906,570	-	-
Animal nutrition	9,205,906	8,435,511	-	-
Animal health products	160,908	186,704	-	-
Dividends	-	-	-	75,707
	<u>19,982,070</u>	<u>19,528,785</u>	<u>-</u>	<u>75,707</u>

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.

	2018	2017
Profit for the year attributable to shareholders (Shs '000'):		
- continuing operations	512,703	114,689
- discontinued operations	(3,621)	(77,318)
	<u>509,082</u>	<u>37,371</u>
Weighted average number of ordinary shares ('000')	<u>75,707</u>	<u>75,707</u>
Basic and diluted earnings per share:		
- continuing operations	6.77	1.51
- discontinued operations	(0.05)	(1.02)
	<u>6.72</u>	<u>0.49</u>

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

Notes (continued)

7 Dividends

In respect of the current financial year, the directors propose a first and final dividend of Shs 1.00 (2017: Shs 1.00) per ordinary share amounting to Shs 75,706,986 (2017: 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

	Group	
	2018 Shs'000	2017 Shs'000
Sale of packing material	9,769	13,901
Laboratory income	24,028	25,016
Gain on disposal of property, plant and equipment	5,219	8,678
Amortisation of capital grants (note 23)	2,993	190
Sundry income	13,245	16,742
	55,254	64,527

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.

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 produces 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 2,299,668,000 (2017: Shs 2,166,351,000) under the animal health and nutrition segment accounts for more than 10% of the revenue arising from direct sales while other operating segments have none.

Notes (continued)

9 Segmental reporting (continued)

Year ended 30 June 2018	Human Nutrition Shs'000	Animal Nutrition & Health Shs'000	Others Shs'000	Elimination Shs'000	Consolidation Shs'000
Continuing operations					
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	278,339	95,108	-	-	373,447
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	7,216,740	3,922,297	-	(1,245,414)	9,893,623
Expenditures for reportable segment non-current assets	847,131	35,202	-	-	882,333
Reportable segmental liabilities	4,867,853	2,143,872	827,207	(3,621,971)	4,216,961
Discontinued operations					
Revenue from external customers	107,216	-	-	-	107,216
Other income	10,586	-	-	-	10,586
Interest expense	1,680	-	-	-	1,680
Depreciation and amortisation	1,687	-	-	-	1,687
Reportable segmental loss	(5,571)	-	-	-	(5,571)
Other material non-cash items:					
Reportable segment assets	39,041	-	-	-	39,041
Expenditures for reportable segment non-current assets	1,919	-	-	-	1,919
Reportable segmental liabilities	106,628	-	-	-	106,628

Notes (continued)

9 Segmental reporting (continued)

Year ended 30 June 2017	Human Nutrition Shs'000	Animal Nutrition & Health Shs'000	Others Shs'000	Elimination Shs'000	Consolidation Shs'000
Continuing operations					
Revenue from external customers	12,239,881	8,622,215	-	(1,333,311)	19,528,785
Inter-segment revenues	1,333,311	-	-	-	1,333,311
Interest income	45,368	5,770	16,277	-	67,415
Other income	45,229	19,298	-	-	64,527
Interest expense	62,649	14,284	-	-	76,933
Depreciation and amortisation	221,903	73,379	-	-	295,282
Reportable segmental profit	22,242	224,218	(18,110)	-	228,350
Income tax expense	54,088	62,350	-	-	116,438
Other material non-cash items:					
Reportable segment assets	6,881,244	3,209,392	-	(925,456)	9,165,180
Expenditures for reportable segment non-current assets	441,336	323,849	33,755	-	798,940
Reportable segmental liabilities	5,041,647	2,017,171	668,938	(3,436,305)	4,291,451
Discontinued operations					
Revenue from external customers	503,990	73,272	-	-	577,262
Inter-segment revenues	-	-	-	-	-
Other income	2,986	-	-	-	2,986
Interest expense	7,688	-	-	-	7,688
Depreciation and amortisation	10,752	-	-	-	10,752
Reportable segmental profit	(140,505)	21,554	-	-	(118,951)
Income tax expense	(30,857)	4,692	-	-	(25,895)
Other material non-cash items:					
Reportable segment assets	290,136	-	-	-	290,136
Expenditures for reportable Segment non-current assets	12,175	-	-	-	12,175
Reportable segmental liabilities	253,420	-	-	-	253,420

Notes (continued)

10 Finance costs

	Group		Company	
	2018	2017	2018	2017
Finance income:	Shs'000	Shs'000	Shs'000	Shs'000
Interest income on deposits	116,649	67,415	22,054	16,277
Finance costs:				
Interest expense on bank loans	4,973	19,962	-	-
Interest expense on bank overdrafts	12,084	1,884	-	-
Interest expense on trade finance	70,074	25,495	-	-
Net foreign exchange losses	3,655	29,592	-	-
	90,786	76,933	-	-

11 Breakdown of expenses by nature

	2018	2017
	Shs'000	Shs'000
The profit before income tax is arrived at after charging:		
Staff costs (Note 12)	1,102,375	1,314,365
Depreciation of property, plant and equipment (Note 24)	262,100	208,791
Amortisation of prepaid operating lease rentals (Note 25)	3,327	952
Amortisation of intangible assets (Note 26)	108,110	85,539
Directors emoluments (Note 33)	63,334	56,383
Auditor's fees	14,503	13,683
Rent expense	19,732	35,843
Provision for impairment-trade receivables	13,843	33,573
Impairment of goodwill	-	150,473
Impairment of plant and equipment (Note 24)	30,678	-

12 Staff costs

Salaries and wages	955,780	1,190,742
Pension obligation – current service cost (Note 28)	42,450	32,637
Social security costs (NSSF) contributions	2,759	2,013
Accrued leave pay	56,730	10,892
Other staff cost	52,456	67,474
Gratuity (Note 18)	(7,800)	10,607
	1,102,375	1,314,365

The average number of employees of the Group during the year was	2018	2017
Production	280	295
Sales and distribution	136	162
Management and administration	149	175
	565	632

Notes (continued)

13 Income tax expense	2018 Shs'000	2017 Shs'000
Current income tax	516,910	47,884
Deferred income tax (Note 19)	(6,418)	68,554
Income tax expense	510,492	116,438
Income tax expense from continuing operations	510,492	142,333
Income tax expense from discontinued operations	-	(25,895)
	510,492	116,438

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:

	2018 Shs'000	2017 Shs'000
Profit before income tax	1,299,266	228,350
Tax calculated at the statutory income tax rate of 30% (2017– 30%)	389,780	68,505
Tax effects of:		
Expenses not deductible for tax purposes	11,323	49,307
Income not subject to tax	(25,327)	-
Under provision of current income tax in prior years	14,309	-
Overprovision of deferred income tax in prior years	3,651	(1,374)
Deferred income tax asset not recognised	116,756	-
Income tax expense	510,492	116,438

14 Share capital	Number of Shares (Thousands)	Ordinary Shares Shs'000
Authorised:		
Balance at 1 July 2016, 30 June 2017 and 30 June 2018	82,760	413,800
Issued and fully paid:		
Balance at 1 July 2016, 30 June 2017 and 30 June 2018	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 2017	Currency translation	Re- measurement of retirement benefit asset	Total
	Shs'000	Shs'000	Shs'000
At start of year	(25,179)	(1,027)	(26,206)
Credit to other comprehensive income	(3,577)	4,217	640
At end of year	(28,756)	3,190	(25,566)
Year ended 30 June 2018			
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)

Other reserves as included above are non-distributable.

16 Non-controlling interests

Group	2018 Shs'000	2017 Shs'000
At start of year		
-as previously reported	1,757,981	2,065,309
-reversal of revaluation surplus (Note 32)	(207,815)	(207,815)
-as restated	1,550,166	1,857,494
Dividend paid	-	(40,765)
Share of profit for the year	274,121	(44,410)
Share of other comprehensive income	(3,103)	344
Acquisition of non-controlling interest	-	(222,497)
At end of year	1,821,184	1,550,166

Summary of Non-controlling interest:

Unga Holdings Limited:

35% Equity interest held by Seaboard Corporation in Unga Holdings Limited	1,821,184	1,550,166
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Notes (continued)

16 Non-controlling interests (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

	2018 Shs'000	2017 Shs'000
Current assets	6,395,529	6,489,592
Current liabilities	(2,956,845)	(4,046,705)
Total current net assets	3,438,684	2,442,887
Non-current assets	3,333,004	2,852,018
Non-current liabilities	(1,244,070)	(564,327)
Total non-current net assets	2,088,934	2,287,691
Total net assets	5,527,618	4,730,578

Unga Holdings Limited summarised statement of comprehensive income

Revenue	19,982,070	19,528,785
Profit before income tax	1,321,969	238,350
Income tax expense	(510,492)	(112,844)
Post tax profit from continuing operations	811,477	125,506
Loss for the year from discontinued operations	(5,571)	(118,951)
Other comprehensive income	(8,866)	984
Total comprehensive income	797,040	7,539

Unga Holdings Limited summarised cash flows

Net cash generated from operating activities	(251,364)	1,577,274
Net cash used in investing activities	(878,309)	(801,853)
Net cash generated from financing activities	567,802	(191,113)
Net increase/(decrease) in cash and cash equivalent	(561,871)	584,308
Cash and cash equivalent at start of year	1,424,528	830,176
Net increase/(decrease) in cash and cash equivalent	(561,871)	584,308
Effect of exchange rates	(2,984)	10,044
At end of year	859,673	1,424,528

Notes (continued)

17 Borrowings

Group	2018 Shs'000	2017 Shs'000
Bank loans	892,189	251,525
Other loans	-	93,600
	892,189	345,125
The borrowings are classified as follows:		
Current		
Bank borrowings repayable within 1 year	76,826	213,437
Non- current		
Bank borrowings repayable between 2-5 years	716,667	131,688
Bank borrowings repayable after 5 years	98,696	-
	815,363	131,688
	892,189	345,125
Movement in borrowings:		
At start of year	345,125	465,365
Repayments	(195,542)	(120,240)
Proceeds from borrowing	742,606	-
At end of year	892,189	345,125

Bank loans comprise the following facilities to the subsidiary Company;

- 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 is expected to be fully repaid by June 2020. The outstanding loan at 30 June 2018 was USD 1,173,563 (2017: USD 2,423,563). The effective interest rate on the facility at 30 June 2018 was 5.5% (2017: 4.98%).
- 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. Total drawdowns at 30 June 2018 amounted to Shs 742,606,000. The effective interest rate on the facility at 30 June 2018 was 12%.

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.

Notes (continued)

18 Post-employment benefit obligation

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;

Service gratuity

	Group	
	2018	2017
	Shs'000	Shs'000
At start of year	17,151	97,098
Credit to profit or loss	(7,800)	10,607
Transferred to defined pension scheme (Note 28)	-	(82,351)
Payments in the year	-	(8,203)
	9,351	17,151
At end of year		

19 Deferred income tax

Deferred income tax is made up of the following.

	Group	
	2018	2017
	Shs'000	Shs'000
		(Restated)
Deferred income tax assets	25,234	32,734
Deferred income tax liabilities	(356,202)	(370,079)
Net deferred income tax liabilities	(330,968)	(337,345)

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%). The movement in the net deferred income tax liabilities is as follows:

	2018	2017
	Shs'000	Shs'000
At start of year		
-as previously reported	(580,991)	(520,477)
-reversal of revaluation surplus (Note 32)	243,646	254,467
-as restated	(337,345)	(266,010)
Credit to profit or loss	6,418	(68,554)
Credit to other comprehensive income	(41)	(2,781)
At end of year	(330,968)	(337,345)

Notes (continued)

19 Deferred income tax (continued)

Group

Year ended 30 June 2018	01.07.2017	Charged/ (credited) to P/L	(Credit) to OCI	30.06.2018
	Shs'000	Shs'000	Shs'000	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

During the year, The Group has not recognised the deferred income tax asset arising from tax losses carried forward in a subsidiary entity because it is uncertain as to when the Company will generate sufficient future profits to utilize the asset.

Notes (continued)

19 Deferred income tax (continued)

Year ended 30 June 2017	01.07.2016	Charged/ (credited) to P/L	(Credit) to OCI	30.06.2017
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property plant and equipment	470,567	103,685	-	574,252
Retirement benefits scheme asset	10,111	-	2,781	12,892
	480,678	103,685	2,781	587,144
Deferred income tax assets				
Unrealized exchange losses	(11,969)	(40,558)	-	(52,527)
Other deductible differences	(166,536)	60,239	-	(106,297)
Tax losses carried forward	(36,163)	(54,812)	-	(90,975)
	(214,668)	(35,131)	-	(249,799)
Net deferred income tax	266,010	68,554	2,781	337,345

20 Inventories

	Group	
	2018 Shs'000	2017 Shs'000
Raw materials	2,108,900	1,254,611
Finished products	320,976	160,983
Packing materials	139,621	109,678
Engineering spares	120,316	110,671
Goods in transit	-	685,864
	2,689,813	2,321,807

Notes (continued)

21 Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	1,316,470	1,479,525	-	-
Provision for impairment losses	(420,148)	(244,738)	-	-
	896,322	1,234,787	-	-
VAT recoverable	530,389	245,783	-	-
Other receivables and prepayments	863,945	547,165	44,547	45,090
Due from related parties (Note 33)	522,782	412,964	98,260	89,855
	2,813,438	2,440,699	142,807	134,945

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	244,738	211,165	-	-
Charge to profit or loss in the year	175,410	33,573	-	-
At end of year	420,148	244,738	-	-

22 Trade and other payables

Trade payables	889,627	592,944	-	-
Other payables and accrued expenses	1,611,579	2,235,535	31,980	24,897
Due to related parties (Note 33)	110,263	933,313	278,792	242,201
	2,611,469	3,761,792	310,772	267,098

Notes (continued)

23 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 plants' useful life. The movement in the year is as follows:

	2018 Shs'000	2017 Shs'000
At start of year	45,409	-
Grant received in the year	20,738	45,599
Amortisation to profit or loss	(2,993)	(190)
At end of year	63,154	45,409

24 Property, plant and equipment

Year ended 30 June 2017	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					
-as previously reported	599,837	1,993,844	49,994	274,707	2,918,382
-reversal of revaluation surplus (Note 32)	(525,632)	(322,592)	-	-	(848,224)
-as restated	74,205	1,671,252	49,994	274,707	2,070,158
Currency translation differences	(3,693)	(8,455)	(990)	(3,877)	(17,015)
Additions	306,891	396,471	28,491	59,557	791,410
Transfer from WIP	168,711	62,042	7,445	(238,198)	-
Transfer to intangible assets	-	-	-	(23,606)	(23,606)
Disposals	-	(584)	-	-	(584)
Depreciation charge	(5,710)	(180,036)	(23,045)	-	(208,791)
Closing net carrying amount	540,404	1,940,690	61,895	68,583	2,611,572
At 30 June 2017					
Cost	617,994	2,710,769	275,432	68,583	3,672,778
Accumulated depreciation	(77,590)	(770,079)	(213,537)	-	(1,061,206)
Net carrying amount	540,404	1,940,690	61,895	68,583	2,611,572

Notes (continued)

24 Property, plant and equipment (continued)

	Buildings Shs'000	Plant and equipment Shs'000	Motor vehicles Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 30 June 2018					
At start of the year					
-as previously reported	1,050,998	2,242,251	61,895	68,583	3,423,727
-reversal of revaluation surplus (Note 32)	(510,594)	(301,561)	-	-	(812,155)
-as restated	540,404	1,940,690	61,895	68,583	2,611,572
Currency translation differences	-	422	-	-	422
Additions	38,360	51,566	37,698	748,144	875,768
Transfer from WIP	7,191	21,512	-	(28,703)	-
Disposals	-	(704)	-	-	(704)
Depreciation charge	(27,476)	(204,886)	(29,738)	-	(262,100)
Provision for impairment	-	(30,582)	(96)	-	(30,678)
Closing net carrying amount	558,478	1,778,018	69,759	788,024	3,194,280
At 30 June 2018					
Cost	663,545	2,752,983	313,034	788,024	4,517,586
Accumulated depreciation	(105,066)	(974,965)	(243,275)	-	(1,323,306)
Net carrying amount	558,479	1,778,018	69,759	788,024	3,194,280

Included in property, plant and equipment are fully depreciated assets with a cost/valuation of Shs 325,026,849 (2017: Shs 232,311,872). The normal annual depreciation on these assets would have been Shs 10,478,650 (2017: Shs 64,075,172).

The Group has pledged assets with net book value of Shs 217,307,932 (2017: Shs 251,929,375) to secure bank borrowings (see Note 12).

Notes (continued)

25 Prepaid operating lease rentals

Cost	2018 Shs'000	2017 Shs'000
At start of year	55,978	56,812
Currency translation differences	-	(834)
	<u>55,978</u>	<u>55,978</u>
Amortisation		
At start of year	28,619	27,839
Currency translation differences	(1,385)	(172)
Write-offs	7,063	-
Amortisation for the year	<u>3,327</u>	<u>952</u>
At end of year	<u>37,624</u>	<u>28,619</u>
Carrying amount at end of year	<u>18,354</u>	<u>27,359</u>

The operating lease prepayment relates to leasehold land.

The Group has pledged leasehold land with a net book value of Shs 16,512,750 (2017 – Shs 20,745,093) to secure borrowings granted to it (see Note 17).

The leasehold land in Kenya and Uganda was valued as at 28 February 2018 and 28 February 2017 respectively by registered valuers on an open market value basis at Shs 2,650,000,000 (US\$26,237,000) and Shs 18,564,000 (US\$ 1,875,000).

Notes (continued)

26 Intangible assets

	2018 Shs'000	2017 Shs'000
Computer software	74,300	166,343
	<u>74,300</u>	<u>166,343</u>
Computer software		
Group		
Cost		
At start of year	352,366	309,055
Additions	8,484	19,706
Transfers from WIP	8,062	23,606
	<u>368,912</u>	<u>352,367</u>
At end of year	368,912	352,367
Amortisation		
At start of year	186,022	100,444
Exchange difference	480	41
Amortisation for the year	<u>108,110</u>	<u>85,539</u>
At end of year	294,612	186,024
	<u>294,612</u>	<u>186,024</u>
Net book value	74,300	166,343
	<u>74,300</u>	<u>166,343</u>

27 Investment in subsidiaries – Company

Unquoted investment at cost in wholly owned subsidiary

	2018 Shs'000	2017 Shs'000
Unga Investments Limited	1,297,335	1,297,335
	<u>1,297,335</u>	<u>1,297,335</u>

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
			<u>100</u>	<u>22,200</u>

Notes (continued)

27 Investment in subsidiaries – Company (continued)

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, breads and pastry	100%	250

28 Retirement benefits asset

The Group operates a 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.

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:

	2018 Shs'000	2017 Shs'000
Present value of funded obligations	668,155	562,773
Fair value of plan assets	(717,502)	(597,474)
Surplus on funded plan	(49,347)	(34,701)
Impact of asset ceiling	24,673	16,764
Retirement benefit scheme asset recognised in the statement of financial position	(24,674)	(17,937)

Notes (continued)

28 Retirement benefits asset (continued)

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

Year ended 30 June 2017	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	197,046	(451,627)	(254,581)	213,275	(41,306)
Current service cost	35,962	-	35,962	-	35,962
Interest expense/ (income)	35,499	(69,215)	(33,716)	30,391	(3,325)
Charge to profit or loss	71,461	(69,215)	2,246	30,391	32,637
<i>Re measurements:</i>					
Return on plan assets	-	(3,909)	(3,909)	-	(3,909)
Change in assumptions	219,476	-	219,476	-	219,476
Change in asset ceiling	2,067	-	2,067	(226,902)	(224,835)
Charge to other comprehensive income	221,543	(3,909)	217,634	(226,902)	(9,268)
<i>Contributions :</i>					
Employee	34,335	(75,973)	(41,638)	-	(41,638)
Employer	82,351	(40,713)	41,638	-	41,638
Payments from plan	(43,963)	43,963	-	-	-
	<u>72,723</u>	<u>(72,723)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	562,773	(597,474)	(34,701)	16,764	(17,937)

Notes (continued)

28 Retirement benefits asset (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
<i>Re measurements:</i>					
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)
<i>Contributions :</i>					
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 2018

Discount rate	At current discount rate Shs ' million	1% Increase Shs ' million	1% Decrease Shs ' million
Present value of obligation	668.2	674.8	661.6

At 30 June 2017

Present value of obligation	562.7	566.6	548.8
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Notes (continued)

28 Retirement benefits scheme asset (continued)

The significant actuarial assumptions were as follows;

	2018	2017
Discount rate	13.33%	13.50%
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;

	2018 Shs'000	2018 %	2017 Shs'000	2017 %
Quoted equities	251,126	35%	139,809	23.4%
Offshore investments	28,700	4%	20,912	3.5%
Government bonds	301,351	42%	410,465	68.7%
Commercial paper and corporate bonds	50,225	7%	23,301	3.9%
Fixed and time deposits	78,925	11%	4,182	0.7%
Net current assets/ (liabilities)	7,175	1%	(1,195)	(0.2%)
Total	717,502	100%	597,474	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)

29 Cash generated from operations

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

Group	2018 Shs'000	2017 Shs'000
Profit before income tax from continuing and discontinued operations	1,293,695	83,506
Adjustments for:		
Depreciation (Note 24)	262,100	208,791
Asset write-off (Note 24)	30,678	-
Write-off of prepaid operating lease rentals (Note 25)	7,063	-
Goodwill written-off	-	150,473
Interest paid	87,131	47,341
Amortisation of prepaid operating lease rentals (Note 25)	3,327	952
Amortisation of intangible assets (Note 26)	108,110	85,539
Amortisation of capital grant (Note 23)	(2,993)	(190)
Gain on disposal of property, plant and equipment	(5,219)	(8,678)
Post-employment benefits obligation	(7,800)	(79,948)
Working capital changes:		
-inventories	(368,006)	240,567
-trade and other receivables	(372,739)	(368,281)
-trade and other payables	(1,151,726)	1,458,573
Cash generated from operations	(116,379)	1,818,645
Company		
(Loss)/ Profit before income tax	(21,549)	74,413
Adjustments for:		
Working capital changes:		
-trade and other receivables	(7,862)	(19,475)
-trade and other payables	43,674	38,812
Cash generated from operations	14,263	93,750

(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	2018 Shs'000	2017 Shs'000
Bank balances	860,024	960,295
Call deposits	226,377	754,460
Cash balances	2,054	-
Cash and cash equivalents	1,088,455	1,714,755

Notes (continued)

29 Cash generated from operations (continued)

Company	2018 Shs'000	2017 Shs'000
Bank balances	2,405	1,059
Call deposits	226,377	289,167
	<u>228,782</u>	<u>290,226</u>

The effective interest rate on call deposit at 30 June 2018 was 9.25% (2017: 9.6%)

30 Discontinued operations

On 22 June 2017, the company resolved to cease milling operations of its subsidiary Unga Millers (U) Limited while it evaluates available business remodelling options going forward. The subsidiary results for the year ended 30 June 2018 are presented as discontinued operations

An analysis of the result of discontinued operations is as follows:

	2018 Shs'000	2017 Shs'000
Revenues	107,216	577,262
Expenses	<u>(112,787)</u>	<u>(722,108)</u>
Loss before tax from discontinued operations	(5,571)	(144,846)
Current income tax credit	-	25,895
	<u>(5,571)</u>	<u>(118,951)</u>
Total comprehensive loss and loss for the year from discontinued operations	(5,571)	(118,951)
Attributable to owners of parent	(3,621)	(77,318)
Attributable to non-controlling interest	<u>(1,950)</u>	<u>(41,633)</u>
	<u>(5,571)</u>	<u>(118,951)</u>
a) Cash flows from discontinued operations		
Operating cash flows	(34,304)	27,522
Investing cash flows	611	(932)
	<u>(33,693)</u>	<u>26,590</u>
Total cash flows	(33,693)	26,590

Notes (continued)

31 Capital commitments

	Group 2018 Shs'000	2017 Shs'000
Authorised and contracted for	-	1,465,180
Authorised but not contracted for	608,050	557,474
	608,050	2,022,654

The bulk of the capital commitments relate to the planned installation of a wheat mill in the Eldoret site and set up of a new soya bean meal processing plant in Nairobi Dakar Road site.

During the year, the Group through its subsidiary, Unga Limited entered into a contract with Cargill Kenya Limited for supply of white milling maize. The quantity contracted was 6,000 MT at Shs 2,700 per 90 kg bag. Total commitment at 30 June 2018 was Shs 180 million (2017: Nil).

32 Prior year adjustment- Reversal of revaluation surplus

During the year, management changed the accounting policy for property, plant and equipment to carry all property, plant and equipment items at historical cost less depreciation and any impairment losses. Property, plant and equipment were previously carried at cost or as professionally revalued less accumulated depreciation and any impairment losses. The reasons for the change are;

- i) The Group's main business is the manufacturing of human nutrition products, animal nutrition products and the distribution of animal health products. Property, plant and equipment are for use in the Group's business. Management believe that carrying property, plant and equipment at historical cost less depreciation and any impairment losses provides users of the financial statements with more reliable and relevant information about the value of the assets based on the Group's business. The change in accounting policy has been accounted for retrospectively;
- ii) To align the Group's accounting policy to that of a significant shareholder in a subsidiary company.

The overall impact is as follows;

	Property, plant and equipment Shs'000	Deferred income tax asset Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Non- controlling interests Shs'000	Profit for the year Shs'000
At 30 June 2016						
As previously stated	2,918,382	552,753	698,848	2,480,889	2,065,309	508,816
Reversal of revaluation surplus	(848,224)	(254,467)	(725,054)	339,112	(207,815)	-
As restated	2,070,158	298,286	(26,206)	2,820,001	1,857,494	508,816

Notes (continued)

32 Prior year adjustment- Reversal of revaluation surplus (continued)

	Property, plant and equipment Shs'000	Deferred income tax liability Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Non- controlling interests	Loss for the year Shs'000
At 30 June 2017						
As previously stated	3,423,727	613,725	674,484	2,594,807	1,757,981	(32,286)
Reversal of revaluation surplus	(812,155)	(243,646)	(700,050)	339,355	(207,815)	25,247
As restated	2,611,572	370,079	(25,566)	2,934,162	1,550,166	(7,039)

33 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 2018 Shs'000	2017 Shs'000	Company 2018 Shs'000	2017 Shs'000
Sale of finished goods – Kenchic Limited	2,299,668	2,166,351	-	-

ii) Purchase of goods and services from affiliates and related parties

	Group 2018 Shs'000	2017 Shs'000	Company 2018 Shs'000	2017 Shs'000
Raw material purchases – Seaboard Overseas	5,293,666	3,733,161	-	-
Other expenses – Seaboard Overseas	47,506	47,533	-	-
Purchase of equipment and spares – Seaboard Overseas Group	42,520	48,988	-	-
Interest charged on trade finance – Seaboard	72,421	29,137	-	-
	5,456,113	3,858,819	-	-

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)

33 Related party transactions (continued)

iii) Key management compensation

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other short-term employment benefits	176,155	133,298	-	-

iv) Directors' remuneration

Fees	16,175	16,810	16,175	16,810
Other emoluments	47,159	39,573	-	-
	63,334	56,383	16,175	16,810

v) Due from related companies

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Unga Investments Limited	-	-	41,564	33,159
Unga Feeds Limited	-	-	7,000	7,000
Unga Holdings Limited	-	-	49,696	49,696
NAS Holdings Limited and its affiliates	655	655	-	-
Kenchic Limited	522,127	412,309	-	-
	522,782	412,964	98,260	89,855

vi) Due to related companies

Unga Limited	-	-	141,573	104,982
Unga Investments Limited	-	-	136,886	136,886
Unga Farm Care (E.A) Limited	-	-	333	333
Seaboard Corporation subsidiaries	105,055	852,224	-	-
NAS Holdings Limited and its affiliates	5,208	81,089	-	-
	110,263	933,313	278,792	242,201

vii) Bank balances with related parties

NIC Bank	613,400	171,984	231,827	101,184
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