

**ZIMELE UNIT TRUST
BALANCED FUND
REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2018**

**DENNIS PAUL & ASSOCIATES
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**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

TRUSTEES

KCB Bank Kenya Limited
KCB Tower, 7th Floor
Junction of Hospital and Kenya Road
Upper Hill
P.O. Box 30664-00100
Nairobi, Kenya

FUND MANAGER

Zimele Asset Management Company Limited
Ecobank Towers, 7th Floor
Muindi Mbingu Street
P.O. Box 76528-00508
Nairobi, Kenya

CUSTODIAN

Standard Chartered Securities Services Kenya
Standard Chartered Bank of Kenya Ltd
Level 5, 48 Westlands Road
P.O. Box 40984-00100
Nairobi, Kenya

AUDITORS

Dennis Paul & Associates
Four Green way apartment, F1
Four Green Street Off Westlands Road
P.o Box 75374-00200
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**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
REPORT OF THE TRUSTEES
FOR THE YEAR ENDED 31 DECEMBER 2018**

TRUSTEE'S REPORT

The Trustee submits its report together with the audited financial statements for the period ended 31st December 2018 that disclose the state of affairs of the Fund.

INCORPORATION AND REGISTERED OFFICE

The Fund began operations on 1 March 2007, is registered under the Capital Markets Act and is domiciled in Kenya. The registered office is at Ecobank Towers, 7th Floor on Muindi Mbingu Street, Nairobi

INVESTMENT OBJECTIVES

The objective of the Zimele Unit Trust Balanced Fund is to generate long term capital growth through investing the members' contributions in equities and fixed income securities in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes, Rules and Regulations 2001).

CHANGE TO INCORPORATION DOCUMENTS

There were no changes made to the incorporation documents (Trust Deed, Information Memorandum and Rules of the Fund) during the period.

TOTAL VALUE OF THE FUND AS AT 31ST DECEMBER 2018

The market value of the fund as at 31st December 2018 was Kshs 169.8 million.

MEMBERSHIP

Membership of the Scheme as at year end was as follows:

	2018	2017
	Members	Members
At start of year	4,117	4,121
Entrants	15	7
Exits	(19)	(11)
At end of year	<u><u>4,113</u></u>	<u><u>4,117</u></u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
REPORT OF THE TRUSTEES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

INVESTMENT OF FUNDS

The funds are invested by the Investment Manager, Zimele Asset Management Company Limited, through Standard chartered Bank in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes, Rules and Regulations 2001).

However, the overall responsibility for investment and performance lies with the trustees.

EXPENSES

The full costs of administering and managing the scheme are borne by the fund.

AUDITORS

Dennis Paul & Associates, Certified Public Accountants, who were appointed in the financial year 2016 have expressed their willingness to continue in office.

Nothing has come to the attention of the Trustees to indicate that the Fund will not remain a going concern for at least the twelve months from the date of this statement.

For: KCB BANK KENYA LTD. For: KCB BANK KENYA LTD.

.....
For the Trustees: CORPORATE TRUSTEE
CORPORATE TRUSTEE

Date..... 29/03/2019

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF TRUSTEE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Capital Market Act require the Trustees to prepare financial statements for each financial year that gives a true and fair view of the state of affairs of the fund as at the end of the period and of the results of its operations. They also require the Trustees to ensure that the fund manager keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Fund. The Trustee is also responsible for safeguarding the assets of the Fund.

The Trustees accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Capital Markets Act. The Trustees are of the opinion that the financial statements give a true and fair view of the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results.

The Trustees certify that to the best of their knowledge and belief the information furnished to the auditors for the purposes of the audit was correct and complete in every aspect.

DECLARATIONS STATEMENT

The Zimele Unit Balanced Fund is an approved Unit Trust within the meaning of Capital Markets Act;

The unit- holders are not liable for the debts of the Unit Trust;

The Zimele Unit Trust Balanced Fund is a securities fund investing in equities and fixed income securities in accordance with the provisions of the Capital Markets Act (Collective Investment Schemes Rules and Regulation 2001).

Nothing has come to the attention of the Trustees to indicate that the Fund will not remain a going concern for at least the twelve months from the date of this statement.

Nothing has come to the attention of the Trustees to indicate that the Fund will not remain a going concern for at least the twelve months from the date of this statement.

For: KCB BANK KENYA LTD. For: KCB BANK KENYA LTD.

.....
For the Trustees. CORPORATE TRUSTEE CORPORATE TRUSTEE

Date..... 29/12/2019

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Statement of Comprehensive Income

	Notes	2018 Kshs	2017 Kshs
Income			
Divided Income		1,930,068	1,774,581
Interest income	3	10,816,355	9,615,314
Capital Gains on Disposal of Investments		3,626,260	618,604
Total		16,372,682	12,008,499
Expenditure			
Bank charges		16,497	15,590
Newspaper Publication Expenses		69,126	69,533
Management fees		4,111,078	3,778,124
Trustee Fees		429,246	384,687
Custody Fees		567,592	321,824
CMA Annual Scheme Fees		60,000	60,000
Secretarial Fees		59,849	54,629
Audit Fees		46,400	46,400
Administration fees		161,780	169,287
AGM fees		7,974	7,974
		5,529,542	4,908,048
Net Surplus		10,843,140	7,100,451

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018**

Statement of Financial Position

	Notes	2018 Kshs	2017 Kshs
Non Current Assets			
Unit Trust Investments	5	17,168,951	10,810,769
Government Securities	6	55,718,594	25,161,208
Quoted Equities	7	42,414,697	61,231,127
Deposits on call	8	50,000,000	55,500,000
		165,302,241	152,703,104
Current Assets			
Bank and cash Balances	9	1,944,598	6,258,833
Income Receivable	10	3,045,468	261,095
		4,990,066	6,519,928
TOTAL ASSETS		170,292,307	159,223,032
LIABILITIES			
CURRENT LIABILITIES			
Other payables and accrued expenses	11	449,243	2,544,958
TOTAL NET ASSETS		169,843,063	156,678,075
FINANCED BY:			
Unit Holders Funds		61,821,284	55,634,542
Reserves		108,021,779	101,043,533
Members Net Worth		169,843,063	156,678,075

The financial statements set out on pages 9 to 16 were approved by the Trustee on2019

For: KCB BANK KENYA LTD.
For the Trustees: CORPORATE TRUSTEE
Date: 29/03/2019

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Statement of changes in Equity

	Net Unit Holders Funds	Net Surplus Kshs	Changes in Fair Value of Investments Kshs	Total
For the year 2017				
As at 1st January 2017	57,690,112	125,077,959	(38,009,439)	144,758,632
Net Contributions	(2,055,570)	-	-	(2,055,570)
Surplus for the Period		7,100,451	-	7,100,451
Prior year adjustments		52,754	-	52,754
Changes in Fair Value of Investment		-	6,821,808	6,821,808
As at 31 st December 2017	55,634,542	132,231,164	(31,187,631)	156,678,075
For the year 2018				
As at 1st January 2018	55,634,542	132,231,164	(31,187,631)	156,678,075
Net Contributions	6,186,742	-	-	6,186,742
Surplus for the Period		10,843,140	-	10,843,140
Prior year adjustments		(257,576)	-	(257,576)
Changes in Fair Value of Investment			(3,607,318)	(3,607,318)
As at 31 st December 2018	61,821,284	142,816,728	(34,794,949)	169,843,063

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Statement of cash flows

	2018 Kshs	2017 Kshs
Cashflow from operations		
Surplus during the year	10,843,140	7,100,451
Prior year adjustments	(257,576)	52,754
	<u>10,585,564</u>	<u>7,153,205</u>
Working Capital Changes		
(Increase) / Decrease in Receivables	(2,784,373)	918,985
Increase / (Decrease) in Payables	(2,095,715)	2,144,032
	<u>(4,880,088)</u>	<u>3,063,017</u>
Net Cash Flow from Operating Activities	5,705,476	10,216,222
CASHFLOW FROM FINANCING ACTIVITIES		
Net Contributions	6,186,742	(2,055,570)
Net cashflow from Financing Activities	<u>6,186,742</u>	<u>(2,055,570)</u>
CASHFLOW FROM INVESTING ACTIVITIES		
Net cashflow from Investing Activities	<u>(16,206,455)</u>	<u>(66,982,941)</u>
Net Cash Inflow/Outflow	(4,314,237)	(58,822,289)
Cash and cash equivalents at start of year	6,258,832	65,081,121
Cash and cash equivalents at end of year	<u><u>1,944,598</u></u>	<u><u>6,258,832</u></u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Notes

1. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below :

2. Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Kshs) and prepared under the historical cost convention as modified by the carrying of available - for -sale investments at fair values.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Trustee's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(a) Revenue Recognition

The income comprises of interest from fixed income securities. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established.

(b) Investments

The Fund classifies its investments depending on the purpose for which the investments were acquired. The appropriate classification of the Fund's investments is determined at the time of the purchase and re-evaluated on a regular basis as follows:

Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

Purchases and sales of investments are recognised on the trade date, which the fund commits to purchase or sell the asset. The cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Realised gains and losses arising from changes in the fair value of available-for -sale investments are recorded in the profit and loss account in the period in which they arise and are included in other operating income.

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Notes (continued)

3. Interest income	2018 Kshs	2017 Kshs
Call account	4,378,162	2,154,249
Money market fund	2,358,182	5,893,358
Treasury bonds	4,080,011	1,567,706
	<u>10,816,355</u>	<u>9,615,314</u>

4. Capital Gains on disposal of Investment	2018 Kshs	2017 Kshs
This relates to the sale of shares	<u>3,626,260</u>	<u>618,604</u>

5. Investments	2018 Kshs	2017 Kshs
Unit Trust Investments	17,168,951	10,810,769
	<u>17,168,951</u>	<u>10,810,769</u>

The money is invested in money market fund in accordance with the provisions of the Capital Market Act.

6. Government Securities	2018 Kshs	2017 Kshs
Government Securities	55,528,167	25,161,208
Kengen Corporate Bond 12.5%	190,427	-
	<u>55,718,594</u>	<u>25,161,208</u>

Government bonds includes treasury bonds and corporate debt.

7. Quoted Equities	No.of shares	2018 Kshs	No. of shares	2017 Kshs
Commercial and services- Express		2,285,270	457,054	1,819,203
Commercial and services- KQ		411,834	36,200	640,740
Banking		20,592,168	687,550	24,715,353
Manufacturing & allied		1,334,175	2,300,302	2,530,332
Energy & petroleum		6,691,250	1,500	25,500
Telecommunication		11,100,000	1200000	31,500,000
	<u>-</u>	<u>42,414,697</u>	<u>4,682,606</u>	<u>61,231,127</u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Notes (continued)

	2018	2017
8 Call Deposits	Kshs	Kshs
Commercial Bank of Africa	-	17,500,000.00
Diamond Trust Bank	-	25,000,000.00
Equity Bank	22,000,000	13,000,000.00
Cooperative Bank	21,000,000	-
NIC Bank	7,000,000	-
	<u>50,000,000</u>	<u>55,500,000.00</u>

	2018	2017
9 Bank and Cash Balances	Kshs	Kshs
Standard Chartered Securities	1,309,617	5,653,235
Kenya Commercial Bank	224,570	318,633
Barclays Bank	357,111	233,665
Standard Chartered Bank	53,300	53,300
	<u>1,944,598</u>	<u>6,258,833</u>

	2018	2017
10 Receivables	Kshs	Kshs
Dividend Receivable	522,500	-
Interest on call account	1,976,027	-
Interest earned from treasury bonds	546,941	261,095
	<u>3,045,468</u>	<u>261,095</u>

Interest receivable is the Interest income earned from Treasury bonds which was not yet received at the end of the year.

	2018	2017
11 Payables and Accruals	Kshs	Kshs
Management fees payable	302,316	331,631
Administrative fees	17,780	35,540
Trustees fees	74,773	33,853
Audit Fees	46,400	46,400
Bond settlement	-	2,097,534
AGM Fees	7,974	-
	<u>449,243</u>	<u>2,544,958</u>

**ZIMELE UNIT TRUST BALANCED FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Notes (continued)

12 Financial Risk Management objectives and policies

The Fund's activities expose it to a variety of financial risks, including market risk and the effects of changes in market prices and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize adverse effects on its financial performance.

Risk management is carried out by the Investment Manager, Zimele Asset Management Company Limited which identifies, evaluates and manages financial risks, with emphasis on specific areas such as interest rate risk, credit risk and investing excess liquidity.

i) Market risk

Market risk is the risk arising from changes in market prices, such as interest rates, equity prices and exchange rates which will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

ii) Interest rate risk

The unit trust is exposed to interest rate risk as it invests funds at floating interest rates and also holds cash deposits with financial institutions. Management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

iii) Operational risk

The fund is exposed to operation risks such as lawsuits and fraud risks since it deals with the public.

iv) Business risk

The fund invest in stock and bonds therefore exposed to business risk should the issuer go bankrupt, the fund managers closely monitors the business risks.

The Fund has policies in place to ensure compliance with international best practice in corporate governance.

v) Foreign exchange Risk

Foreign investment involves exchange of currencies in order to purchase foreign stock, there is risk if you hold for a year, you will have to convert the currency yet it's not certain what the exchange rate will be. The management engage good professionals who are able to mitigate the risk.

**REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEES OF ZIMELE UNIT TRUST
BALANCED FUND FOR THE YEAR ENDED 31ST DECEMBER 2018**

Opinion

We have audited the accompanying financial statements of Zimele Unit Trust Balanced Fund, set out on pages 10 to 17, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the fund are prepared, in all material respects, in accordance with International Financial Reporting Standards for Small and medium sized entities and the requirements of the Kenyan Capital Market Authority Act.

Basis of 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 fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Financial Statements

The Trustees are responsible for the preparation of the financial statements in accordance with the International Financial Reporting Standards for Small and medium sized entities and the requirements of the Capital Market Authority Act and for such internal control as the directors' and management determines 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 Trustees are responsible for assessing the Unit trust'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 Trustees either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Unit Trust's financial reporting process.

Auditor's Responsibility

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 judgment and maintain professional scepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the

AUDITING ■ TAXATION ■ ACCOUNTING ■ FINANCIAL CONSULTANCY

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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE UNIT TRUST MONEY MARKET FUND (CONTINUED)

Auditor's Responsibility (Continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.

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

Report on Other Legal Requirements As required by the Kenyan Companies Act.

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii. In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii. The Company's balance sheet and profit and loss account, which are referred to as statement of financial position and statement of comprehensive income respectively in this report, are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Dennis Paul M Ireri of Practising Certificate No. 1925

Certified Public Accountants

Nairobi



DENNIS PAUL M IRERI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
P. O. Box 73374 - 00200
NAIROBI

29/3/2019