



Unikai Foods PJSC

Accumulated Losses Recovery Plan

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1. OVERVIEW

Unikai Foods PJSC ("Unikai, or the Company") is presenting to the Securities and Commodities Authority ("SCA") a recovery plan for handling the accumulated losses representing 20% or more of its paid-up capital, along with the schedule or the time frame of the recovery plan for the same.

2. DESCRIPTION OF THE COMPANY

2.1. Information on the Main Activities of the Company

Established in April 1977, Unikai is a Public Shareholding Company, which was incorporated by the decree of His Highness, Sheikh Rashid Bin Saeed Al-Maktoum, the then Ruler of Dubai. The Company is listed on the Dubai Financial Market ('DFM') and holds 100% equity stake in its subsidiary - Unikai & Company LLC, registered as a Limited Liability Company in the Sultanate of Oman.

The Company is engaged in the manufacturing and distribution of Dairy, Juice, Ice-cream, Long Life Milk / Drink / Juices, Carbonated Soft Drinks, Water, Rice and various other kinds of food products.

It has a 45,000 square yards (37,626 square meters) manufacturing facility in Dubai and offers a diversified portfolio of products with a total number of 240 active Stock Keeping Unit ("SKU"s) grouped into 11 Brands.

Unikai's Product Range

A brief description of the products is shown below:

Dairy/Fresh	Ice Cream	Long-life	Soft drinks & Water	Rice	Others
Areej Drink	Choco Bar	100% Pure	Coconut Juice	Classic	Cakes
Flavored Milk	Nutty Cones	Juice & Nectar	U Bottled Drinking	Mumtaz	Evaporated Milk
Fresh Juice	Cups 150 ml	Flavored Milk	Water	Mumtaz	Margarine
Fresh Milk	Royal Treat	Juice Drinks	U Cola	Mahal	Nuts
Laban &	Cups 85 ml	Milk powder	U Fruity	Al Gubaira	Spreadable
Flavored Laban	I/C Sandwich	Plain Milk	U Lemon	Al Sadah	Cheese
Milk Shakes	Kulfi Bar	Laban	U Lightning	Areej	Triangle Cheese
Yoghurt	Tubs 1 ltr.		U Orange	Biryani Rice	
	Lollies		U Soda		
	Tubs 4 ltr.				
	Magma Bar				
	Tubs 500ml				
	Nutty Bar				
In-house production			Traded		

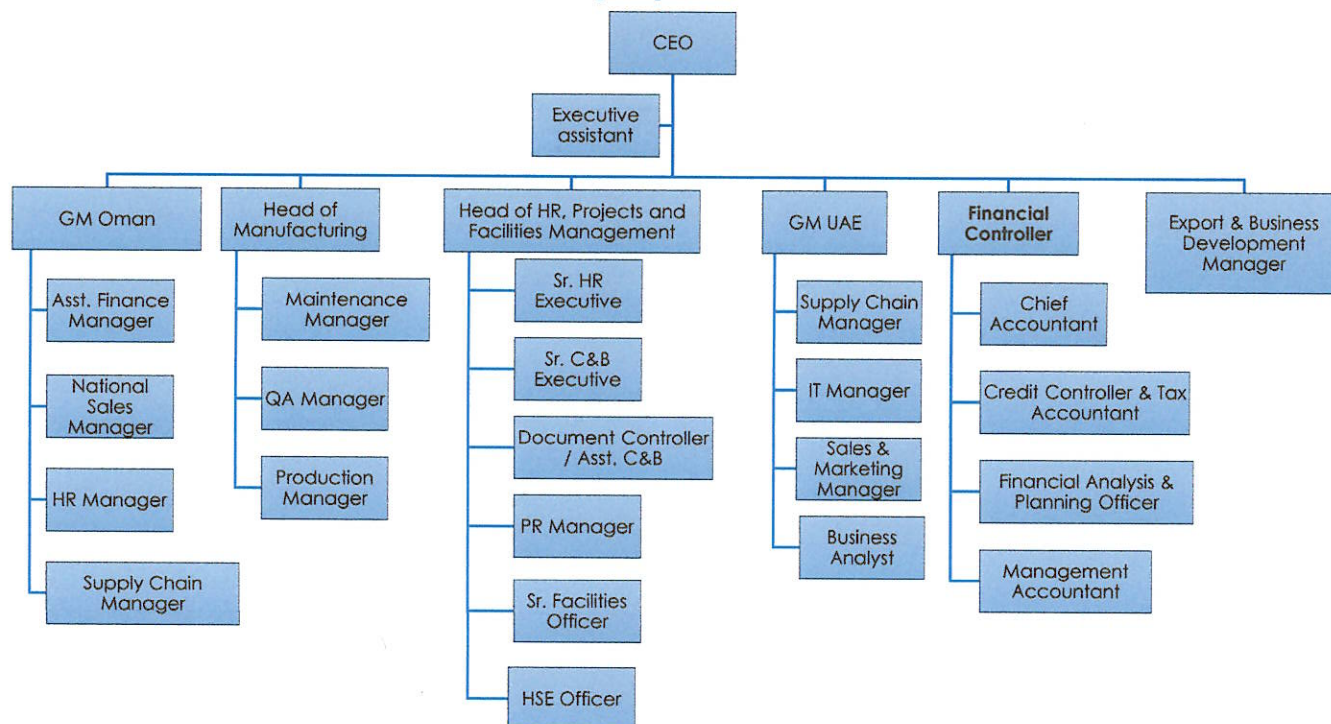


Unikai's Top Customers

Unikai has always believed in providing high quality products to its customers. It serves over 20,000 customers across UAE and Oman, through its 4 branches in the UAE and 8 branches in Oman. Recently, the Company is also expanding its reach to African Markets, Levant and other GCC countries such as Bahrain, with plans to extend its reach to the Kingdom of Saudi Arabia and Kuwait. The Company has been able to build and retain a long, healthy and happy relationship with the below top customers and partners:

TOP CUSTOMERS

The Organizational Structure of the Company



2.2. Summary of the Company's Commitment to Corporate Governance During the Past Three Years

Unikai conducted the following procedures in implementation of the Chairman of Authority's Board of Director's resolution no. (7 R.M) of 2016 in respect of the governance control addressing the following:

- Amend the Company's Article of Association to comply with the governance rules;
- Appointing independent Board members;
- Appointing the Audit Committee by the Board;
- Appointing the Remuneration & Nomination Committee; and
- Appointing the Internal Control Department & Compliance Officer.

Further, Unikai is compliant with the standards & procedures as set out by the resolution no. (7 R.M) of 2016. The Company will continue to comply with the Securities & Commodities requirements, particularly the new requirements which have been approved by the new commercial companies' law no. 2 of 2015.

The Company continues to apply the governance rules effectively and in a transparent manner, based on the responsibility of the Board of Directors towards the Shareholders of the Company, in a manner that protects and enhances the value of Shareholders' rights through implementing the following procedures:

- The Board of Directors' commitment to hold four meetings on an annual basis;
- The Board of Directors' commitment to disclose their independence on an annual basis;
- The Board of Directors' commitment to disclose their trading and the trading of their first-degree relatives of Unikai shares;
- Holding four meetings of the Audit Committee and one meeting of the Nominations and Remunerations Committee and carrying out the tasks assigned to these committees;
- Submitting a summary report to the Board of Directors with the results and recommendations reached by the committees and following up on the implementation of results;

- The Management's commitment to disclose the quarterly and annual financial statements within the legal timeframe;
- Disclose the most important decisions taken by the Company's Board of Directors and share these results and decisions with the SCA and the Dubai Financial Market; and
- The Company continues to review its internal systems in order to introduce the procedures required by the aforementioned resolution for full and continuous compliance with the circulars issued by SCA.

Changes in the Members of the Board of Directors, Senior Executives and Major Shareholders

In the Annual General meeting of the company held on 23rd April 2020, the shareholders appointed a well-qualified panel of the board of directors each listed below –

S.no	Name of Board Member	Position
1-	Mr. Mana Mohamed Saeed al Mulla	Chairman, Non Independent Director
2-	Mr. Osama Ibrahim Ahmed Seddiqi	Vice-Chairman, Independent Director
3-	Mr. Abdullah Essa al Zaabi	Board Director, Independent Director
4-	Mr. Majed Abdul Kareem Julfar	Board Director, Independent Director
5-	Mr. Misha'l Mohamed Moosa	Board Director, Independent Director
6-	Mr. Salim Sultan Omran al Owais	Board Director, Independent Director
7-	Mr. Adil Saleh Mohamed Al Ali	Board Director, Independent Director

Change in the Major Shareholders:

- No change in Senior/Major Shareholders in the Year 2019

3. DETAILED INFORMATION ABOUT THE CAUSES OF THE COMPANY'S ACCUMULATED LOSSES

3.1. Summary of the Company's Financial Information for the Last Three Years

Particulars in AED '000	2017	2018	2019
Revenue	355,408	342,108	312,066
Gross Profit	122,810	97,189	106,301
<i>Gross Profit Margin</i>	<i>35%</i>	<i>28%</i>	<i>34%</i>
Operating Profit	9,773	(28,885)	4,725
<i>Operating Profit Margin</i>	<i>3%</i>	<i>-8%</i>	<i>2%</i>
Net Profit	2,356	(20,392)	515
<i>Net Profit Margin</i>	<i>1%</i>	<i>-6%</i>	<i>0%</i>
Total Assets	211,352	198,636	237,843
Total Liabilities	174,168	176,566	215,258
Share Capital	32,368	32,368	32,368
Accumulated Losses	1,659	(19,644)	(19,129)
Equity - Attributable to Parent's Equity Holders	37,184	22,070	22,585

Note: Amounts rounded to the nearest decimal

3.2. Explanation for the Accumulated Losses Including Operational, Financial and Other Reasons

The Company's accumulated losses position started in 2018 as a result of substantial losses (over AED 20 million) incurred during the year. This was primarily driven by the unprecedented challenging year for the FMCG industry on account of unpredictable impact of new taxation legislations i.e. VAT and excise tax along with the regional economic slowdown, geo-political risks, all of which created uncertainty and weak market sentiments resulting in stiff competition in the market. To maintain market share and to adjust to the new VAT and excise tax environment, companies started offering substantial discounts/promotions on their products. In order to compete, Unikai had to resort to similar measures which had a negative impact on the financials performance.

Highlights of the Major Challenges and Risks Affecting the Company

- **Heavy Competition:** Increase in competition in the UAE & Oman markets impacted the Company's revenue by 4% with no corresponding reduction in the costs as compared to previous years;
- **Increased Cost of Business:** The cost of doing business significantly increased in the UAE with inflation levels¹ rising from 1.97% in 2017 to 3.07% in 2018. The introduction of VAT laws has been the key reason in the increase;
- **Low Profitability:** Selling prices, in general, are low and did not increase during the past few years. With increased cost of business and fluctuations in commodity prices, the Company's gross margins reduced by 6% in 2018 compared to 2017;
- **High Selling & Distribution Cost:** Over the last four years, the Company added 98 trucks to its fleet reaching a total of 276 trucks. However, with the increased competition, the revenue per truck per month declined by 11% in 2018 compared to 2017. This increased the distribution cost to 24% of revenue. vis-à-vis the cost of other food and beverage companies which was approximately 13-15% of revenue;
- **Lack of Marketing/Branding:** Minimal Marketing/Branding on the launch of new products to make them a success story made it a challenge for the Company to promote and capitalize on these products; and

¹ *Source: Statista.com

- **Cash Flow Challenges:** Slow recovery of collections due to the general slowdown in the market, coupled with the investments in new projects, increased the pressure on the Company's cash flows.

3.3. Measures taken by the Company to Address the Accumulated Losses

The Management of Unikai has reacted swiftly and in a timely manner to address the market adversities by clearly devising an effective business strategy and a detailed profitability enhancement plan for the Years 2019 to 2023. The Company has prioritized their preferences and focused on the following fundamental strategic objectives:

- Deliver sustainable revenue stream, compatible with evolving market dynamics; and
- Generate continuous healthy net profits derived from sustainable revenue stream. The Company has aligned its resources to enhance sales of categories which yield higher profit margins. The specific focus on improving the sales contribution margin mix and cost reduction measures shall deliver better results in the near future.

Steps undertaken to deliver the Strategic Objectives over the next few years

1. Increase in sales price of certain key products;
2. Delivering profitability by focusing on selling high margin products, rationalizing trade discounts, overheads, and admin costs;
3. Rationalization of fleet and sales routes to improve distribution efficiency;
4. Increasing customer base by improving distribution capabilities, for e.g. establishing new warehousing facilities in Ras Al Khaimah ('RAK') to further penetrate in the Northern Emirate market;
5. Periodically upgrading infrastructure – manufacturing equipment, hand-held terminals, to facilitate better distribution & coverage and accommodate any production capacity enhancements; and
6. Explore new geographies in the Export business segment.

The year 2019 has been a classic example of the success of implementation of these strategic priorities. The Company has seen significant improvement and turnaround relative to the year 2018 in terms of financial and operational performance with good progress on cost-reduction programs across the areas of administration, procurement, manufacturing and distribution. These strategic measures are expected to continue and improve the financial standing of the Company in the next few years.

4. DETAILED EXPLANATION OF THE RECOVERY PLAN

4.1. Information about the Committee formed to Implement the Plan

The Board has entrusted the responsibilities of implementing the plan with the members of the Audit committee chaired by Mr. Osama Ibrahim Ahmed Seddiqi along with the committee members Mr. Majed Abdul Kareem Julfar and Mr. Abdullah Essa Al Zaabi

4.2. Changes in the Company's Strategy, Policies and Financial Performance based on the Plan

Company Strategies and Directions

Focus on improving profitability

The Company plans to focus primarily on profitable volume growth by promoting high margin products. The year 2019, was the first year of implementation of this plan, which resulted in Gross Margins improving by 6%. In addition, the Company also intends price increases of 8% to 10% across key products. Although, this is expected to result in a decline in revenue in 2020, however, it will improve the profitability to reasonable levels setting a benchmark for the Company to maintain sustainable profits in the coming years. The Company expects to marginally improve the Gross Margins (approx. 35% - 37%) over the next few years.

Rationalization of routes and fleets to improve the efficiency and reduce the operational cost;

The Company rationalized its fleet size from 276 trucks in 2018 to 240 trucks in 2019. This planned reduction has been achieved by clubbing the routes to improve the customer reach & adding additional trips during the day to increase the current monthly throughput per truck. The Company is implementing such rationalization of routes with an aim of increasing the throughput per truck by 5% every year.

By rationalizing routes and implementing other cost optimization measures – truck rentals, manpower, fuel and other expenses, the Company was able to achieve a saving of AED 18 million in 2019.

Rationalizing new product launches and scaling down number of non-profitable products;

From 2016 to 2018, the Company launched about 20+ SKU's in different categories reaching a total of 240 SKUs by end of 2018. Some of these product launches were well received by the customers, however, some of them did not reach the penetration levels as expected. The Company is now focusing on conversion/discontinuation of loss-making products and rationalizing to approximately 225 SKUs over the next four years. The Company is also focusing on reducing trading of some of its items, which were of low margin. Such discontinuation of products and scaling down of few low margin items combined with price increase of certain key products is expected to impact revenue moderately, however, they will result in better profit margins. In addition, the Company will also optimize its marketing/promotion expense by introducing new products by co-packing it with existing products, with minimal/no investments required.

Increase in customer penetration

To offset the reduction in revenue due to the planned increase in prices, the Company intends to further penetrate the market and increase customer base. The total customer universe in UAE and Oman is close to 38,000 customers across all categories led mainly by the groceries and eateries (B2B). Currently, Unikai is serving approximately 19,800 customers in UAE & Oman together covering almost 52% of the total universe. Going forward, the Company's Management is expecting to increase its customer base by a CAGR of 7% both in the UAE and Oman bringing the total number to 27,000+ customers, which will be 72% coverage of the current universe. This will be achieved by growing the Company's scale of operations over the new few years including completion of RAK warehouse by the year 2021 - the coverage and penetration is expected to increase in the Northern Emirate region of the UAE. Additionally, the Company also plans to use various e-commerce platforms and to start home deliveries as well.

These strategic priorities are expected to bring substantial savings to the operational costs of the Company upon its implementation. This is visible in the financial results of the year 2019 wherein the Company's management has been able to turnaround the Company from a loss of AED 20.4 million to almost breakeven in the first year itself. With the similar momentum, the Company expects to cover its accumulated losses by the year 2023 as projected below.

4.3. Measures being taken by the Company to Mitigate the Impact of COVID-19

The pandemic COVID-19, has had an impact on all businesses globally, leading to lower revenue and profitability being forecasted across industries. Unikai Foods is also impacted by this unprecedented situation, which will impact its revenue and profitability for the year 2020. The drop in volume (as a result of COVID) coupled by increase in prices across some key segments (in order to maintain margins) is expected to result in drop in revenues by over 20% in Year 2020. However, the Management of Unikai has acted swiftly and implemented various initiatives which include reduction in costs wherever possible as well as to capitalize on the business opportunities triggered due to the COVID-19. Below are the detailed measures taken by the Management to ensure the Company's going concern:

1. Focus on sales of necessity items like rice, milk, cheese, evaporated milk and flavored milk. Such efforts have resulted in sales of these items significantly & the Company was able to compensate the lost sales in the fresh & ice-cream business;
2. With expected decline in sales, a total of 49 trucks are planned to be reduced without any penalty to enhance overall efficiency. The savings will be in the form of rentals, manpower and fuel costs;
3. The Management is also in the process of renegotiating the costs of key materials and services offered by the suppliers. The target is to achieve a minimum of 20-25% discount on the costs - some of them have been materialized till date. In addition, the Company is also in discussion with various suppliers to increase the payment period. Most of the suppliers have agreed on the extended payment terms;
4. The Management has been able to identify areas for reduction in hired labor without impacting the operations. Additionally, the Company has also been able to reduce per hour costs, for its temporary labor, with all the manpower suppliers; and
5. In order to support the cash flows, the banks have agreed to defer the term loans and working capital maturities by another 3-6 months. Although, this will increase Unikai's finance costs, it will give the Company the cash flow support during the period of slower market recoveries. Since mid-Q2 2020, the Company has started re-paying the deferments as well.

4.4. The Company Financial Forecast

Summary of Profit & Loss Forecast (AED' 000)

Particulars	2019	Forecast	2020	2021	2022	2023
Revenue	312,066		243,529	258,141	273,629	290,047
Gross Profit	106,301		88,808	95,512	101,243	107,317
Operating Expenses	(101,577)		(82,049)	(84,115)	(86,513)	(89,454)
Operating Profit	4,724		6,759	11,397	14,729	17,863
Net profit/(loss)	515		147	3,585	6,672	9,506

Summary of Balance Sheet Forecast (AED' 000)

Particulars	2019	Forecast	2020	2021	2022	2023
Total Non-current Assets	90,470		79,276	77,011	67,046	56,881
Investment in Properties	32,700		31,875	31,050	30,225	29,400
Total Current Assets	114,673		108,979	110,036	110,940	115,549
Total Assets	237,843		220,130	218,097	208,211	201,830
Share Capital	32,368		32,368	32,368	32,368	32,368
Accumulated Earnings / (Losses)	(19,129)		(18,982)	(15,397)	(8,725)	780
Others	9,346		9,346	9,346	9,346	9,346
Total Equity	22,585		22,732	26,317	32,989	42,494
Bank Borrowings	89,601		71,373	62,157	54,940	55,850
Total Current Liabilities (excluding bank borrowings)	134,844		132,189	141,682	133,110	120,169
Total Non-current Liabilities (excluding bank borrowings)	80,414		65,210	50,098	42,112	39,167
Total Liabilities	215,258		197,398	191,780	175,222	159,336
Total Equity & Liabilities	237,843	220,130	218,097	208,211	201,830	

Ratios	2019	Forecast	2020	2021	2022	2023
Revenue Growth	-9%		-22%	6%	6%	6%
Gross Profit Margin	34%		36%	37%	37%	37%
Operating Profit Margin	2%		3%	4%	5%	6%
Net Profit Margin	0%		0%	1%	2%	3%
Current Ratio	0.9x		0.8x	0.8x	0.8x	1.0x
Debt/Equity	4.0x		3.1x	2.4x	1.7x	1.3x
Interest Coverage (EBIT/Interest)	0.4x		0.7x	1.2x	1.5x	1.8x

Note: Unikai has obtained a covenant waiver from the banks due to the non-compliant of financial covenants as at December 2019 and is currently negotiating with banks regarding re-profiling its financing terms

4.5. Solutions to avoid Market Risks, Operational Risks, and Other Risks that may affect the Plan

Potential Risk	Planned Mitigating Measures
<p>Market Risk</p> <ul style="list-style-type: none"> • Strong Competition in the retail market in the countries in which the Company operates. Additionally, the Company may not be able to increase volume and prices as envisaged • Increase in raw material prices may impact margins. • Further increase in excise tax on sweetened products/beverages may impact demand 	<ul style="list-style-type: none"> • Given the long operating history, the 'Unikai' brand as well its products have a strong client base. The Company provides quality products at affordable prices, which helps to cater its products to a wider customer base • The Company has already implemented strategic measures and increased prices successfully on certain key products. This has resulted in better profit margins • Expanding its distribution by setting up a distribution centre in Ras Al Khaimah will help the Company further penetrate the Northern Emirate market, which is a key area for the Company, given that several products of the Company are within the "value/affordable" segment. With such penetration the Company intends to further increase customer base/volumes • In addition, the Company also introduced an e-commerce platform to widen its reach and added a new dimension to the FMCG retail business • The Management of the Company has negotiated certain supply contracts and entered into certain agreements to lock prices for its key raw materials with its suppliers, hence mitigating the risk of prices increases • The Company has a well-diversified product range including dairy, nuts, juices and beverages which will partially negate the impact of future increase in excise taxes (if any)
<p>Operational Risk</p> <ul style="list-style-type: none"> • Significant increase in operating costs could potentially result in losses thereby further increasing accumulated losses position • Further changes in food and safety regulations may increase cost of operations 	<ul style="list-style-type: none"> • The Company has been optimizing its operating cost structure by consolidating certain positions and departments within the Company which has resulted in annual cost savings. It has also been able to reduce hourly costs for its temporary labor, with the manpower suppliers • Additionally, the Company has also rationalized its fleet to increase through-put (revenue/truck) by 5% year-on-year • It is also implementing optimization of its filling lines and evaluating the run operations

	<p>on all days (depending on warehouse space availability) to manage inventory levels and keep adequate buffer for peak months (such as Ramadan, year-end holiday and tourist season)</p> <ul style="list-style-type: none"> The Company is in compliance with all food and safety regulations and is constantly innovating to meet the standards as defined by the regulators
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4.6. Schedule/Time Frame for Implementing and Completing the Recovery Plan

The time frame for implementing and completing the recovery is four years starting from Year 2020. The strategic plan embodies the Company's continuous commitment to its various stakeholders. As Unikai looks to the future, there will be challenges in terms of accelerating change, increasing complexity and continued uncertainty. However, in the midst of these challenges, the Management's intent is clear - to be the leading Food and Beverage Company in the Gulf, in line with the Company's vision statement, and to maintain a profitable Company with a view to enhance Shareholder value.

5. RATIFICATIONS

We, the members of the Company's Board of Directors and Executive Management, acknowledge that this plan contains information presented according to the procedures and instructions of the companies whose shares are listed in the market and whose accumulated losses reached (20%) or more of its capital, issued by the Securities and Commodities Authority (SCA). Collectively and individually, we bear full responsibility for the accuracy of the contents of this plan and the information contained therein. The SCA or Market does not bear any responsibility for the contents of this plan, nor does it give any assurances regarding its accuracy or completeness.

Further information on Unikai can be found at www.unikai.com

Chairman of Unikai PJSC	Mr. Mana Mohamed Saeed al Mulla	
Chairman of the Audit Committee	Mr. Osama Ibrahim Ahmed Seddiqi	
Date & Company's Seal		

Names and approvals of the expert entity(ies) or technical or financial institution(s) that have assisted in preparing the Recovery Plan to address the accumulated losses:

Al Mal Capital PSC

Sanjay Singh

Navendra Gajria

ROSHAN SHAH

This document should be read in conjunction with the disclaimer attached.

Disclaimer

30th June 2020

Board of Directors and shareholders of Unikai Foods PJSC
P. O. Box 6424
Al Quoz Industrial Area
Dubai, UAE

Subject: Recovery Plan for Accumulated Losses reported by Unikai Foods PJSC

Dear Sirs,

Al Mal Capital PSC ('Al Mal') was engaged in a specific scope assignment by Unikai Foods P.J.S.C. ('Unikai' or the 'Company') to assist in the preparation of the Recovery Plan ('Document') to addresses the accumulated losses as required by Securities and Commodities Authority ('SCA'). This Document was prepared exclusively for the benefit and internal use of SCA and does not carry any right of publication or disclosure to any other party.

The information provided in this Document to SCA is part of the Company's Recovery Plan to address the accumulated losses that has been based solely upon the forecasts provided by the management of Unikai. This Document is incomplete without reference to, and should be viewed solely in conjunction with, the supporting documents and growth projections which were prepared by the management of Unikai.

Al Mal does not make, provide any recommendation nor does it provide any assurance, representation, or warranty, express or implied, as to the accuracy or completeness of this Document as a part of the Recovery Plan. The information contained therein shall not have any liability for the information contained in, or any omissions from, this Document nor for any of the written, electronic or oral communications transmitted to the recipient in the course of the recipients' own investigation and evaluation of Unikai's recovery plan.

The information contained in the Document was based on a recovery plan provided by the management as of 30th June 2020 and maybe subject to change or amendment. There may have been changes affecting Unikai or its subsidiaries subsequent to the date of this Document. The delivery of this Document at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the Unikai's affairs since that date or that the information set forth in this presentation is correct as of any time since its date. Al Mal has not reviewed any information, business plan subsequent to this date.

The information contained herein should be treated in a confidential manner and may not be reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the

prior written consent of Al Mal. Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "estimate", "intend", "continue", or "believe" or the negatives thereof or other variations thereon or comparable terminology.

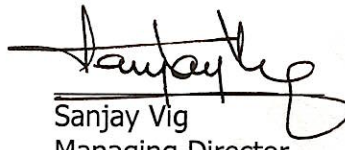
Due to various risks and uncertainties, actual events or results or the actual performance of Unikai may differ materially from those reflected or contemplated in such forward-looking statements as provided on the information provided and the financial model.

In this document, references to "AED" shall be to the lawful currency of the United Arab Emirates.

Yours sincerely
Al Mal Capital PSC
Dubai.



Roshan Shah
Executive Director



Sanjay Vig
Managing Director



Narendra R. Gajria
COO

