UNIVERSAL CORPORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 2016

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	: Perviz Rajnikant Dhanani
	: Rupen Haria
	: Coutts Akolo Otolo
	: Umesh Pralhadrao Kale (Appointed on 07/06/2016)
	: Mohana Kumar Pillai (Appointed on 18/01/2017)
	: Venkata Seetha Rama Raju Pakalapati (Appointed on 18/01/2017)
	: Shashank Surendra Sinha (Appointed on 18/01/2017)
	: Pentti Keskitalo (Resigned on 23/02/2017)
	: Sinhue Bosco Noronha (Resigned on 18/02/2017)
	: Ravi Shankar Chandrasekhar (Resigned on 18/02/2017)
	: Akhilesh Kumar Balakrishna Pillai (Resigned on 18/02/2017)
	: Rajan Rajnikant Dhanani (Resigned on 07/06/2016)
	: Anders Lucas Torsten Kranck (Resigned on 07/06/2016)
REGISTERED OFFICE	: L.R. No. 13777
	: Club Road
	: P.O. Box 1748, 00902
	: KIKUYU
PRINCIPAL PLACE OF BUSINESS	: L.R. No. 13777
	: Club Road
	: KIKUYU
	: Telephone: +254 066 32305/31459/61/62
	: Email: info@nelnet.com
INDEPENDENT AUDITOR	: PKF Kenya
	: Certified Public Accountants
	: P.O. Box 14077, 00800
	: NAIROBI
COMPANY SECRETARY	: Violet Kadenyi Kibera
	: Certified Public Secretary
	: P.O. Box 6219, 00200
	: NAIROBI
PRINCIPAL BANKER	: National Industrial Credit Bank Limited
	: NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of the company.

In accordance with Section 42 of the Sixth Schedule of the Kenyan Companies Act, 2015, Transitional and Savings Provisions, this report has been prepared in accordance with Section 157 of the repealed Kenyan Companies Act, as if that repeal had not taken effect.

PRINCIPAL ACTIVITIES

The principal activities of the company are those of manufacturing and selling of pharmaceutical products.

RESULTS	2016 Shs	2015 Shs
Profit before tax	505,435,629	286,637,644
Tax	(160,650,202)	(93,922,502)
Profit for the year	344,785,427	192,715,142

DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2015: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

INDEPENDENT AUDITOR

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with Kenyan Companies Act, 2015.

BY ORDER OF THE BOARD

DIRECTOR
NAIROBI

29TH JUNE 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2016 and of the company's 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.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the 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 responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the directors on 29TH JUNE 2017 and signed on its behalf by:

DIRECTOR | **DIRECTOR**

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UNIVERSAL CORPORATION LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Universal Corporation Limited set out on pages 7 to 30 which comprise the statement of financial position as at 31 December 2016, statement of profit or loss, statement of changes in equity, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the the company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and 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 other 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.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors and the schedules of expenditure but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view 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.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UNIVERSAL CORPORATION LIMITED (CONTINUED)

Responsibilities of directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or has 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 judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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

- Conclude on the appropriateness of director'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.

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

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

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UNIVERSAL CORPORATION LIMITED (CONTINUED)

Report on Other Legal and Regulatory Requirements

As required by the Kenyan Companies Act, 2015 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 statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Salim Alibhai – P/No 2151.

PKF Kenya

Certified Public Accountants
NAIROBI

29 June 2017

912/17

STATEMENT OF PROFIT OR LOSS

	Notes	2016 Shs	2015 Shs
Revenue	2	3,007,630,419	2,261,503,823
Cost of sales		(2,217,562,971)	(1,598,352,777)
Gross profit		790,067,448	663,151,046
Other operating income	3	3,920,583	6,361,877
Depreciation on property, plant and equipment	11	(55,982,712)	(41,949,825)
Administrative expenses		(217,683,428)	(195,350,633)
Other operating expenses		(40,683,317)	(38,986,619)
Operating profit	4	479,638,574	393,225,846
Finance (income)/costs	6	25,797,055	(106,588,202)
Profit before tax		505,435,629	286,637,644
Tax	7	(160,650,202)	(93,922,502)
Profit for the year		344,785,427	192,715,142

The notes on pages 11 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 Shs	2015 Shs
CAPITAL EMPLOYED			
Share capital	8	182,248,000	182,248,000
Share premium		723,949,006	723,949,006
Retained earnings		395,041,750	50,256,323
Shareholders' funds		1,301,238,756	956,453,329
Non-current liabilities			
Borrowings	9	210,343,638	215,818,877
Deferred tax	10	236,705,006	76,054,804
		447,048,644	291,873,681
		1,748,287,400	1,248,327,010
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	898,185,941	753,679,444
Intangible assets	12	135,886,769	129,871,556
Investment in associate	13	5,813,188	3,452,388
		1,039,885,898	887,003,388
Current assets			
Inventories	14	774,577,411	535,062,720
Trade and other receivables	15	797,707,942	449,433,938
Cash and cash equivalents	16	12,291,606	43,881,096
		1,584,576,959	1,028,377,754
Current liabilities			
Borrowings	9	521,751,833	437,246,308
Trade and other payables	17	354,423,624	229,807,824
		876,175,457	667,054,132
Net current assets		708,401,502	361,323,622
		1,748,287,400	1,248,327,010

The financial statements on pages 7 to 30 were approved and authorised for issue by the Board of Directors on 29TH JUNE 2017 and were signed on its behalf by:

________________ DIRECTOR   ________________ DIRECTOR

The notes on pages 11 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Share premium Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2015				
At start of year	182,248,000	723,949,006	(142,458,819)	763,738,187
Profit for the year	-	-	192,715,142	192,715,142
At end of year	182,248,000	723,949,006	50,256,323	956,453,329
Year ended 31 December 2016				
At start of year	182,248,000	723,949,006	50,256,323	956,453,329
Profit for the year	-	-	344,785,427	344,785,427
At end of year	182,248,000	723,949,006	395,041,750	1,301,238,756

The notes on pages 11 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

STATEMENT OF CASH FLOWS

	Notes	2016 Shs	2015 Shs
Operating activities			
Cash from operations	18	86,919,117	436,482,634
Interest paid		(56,742,450)	(73,961,802)
Net cash from operating activities		30,176,667	362,520,832
Investing activities			
Purchase of property, plant and equipment	11	(200,833,562)	(61,639,224)
Purchase of intangible assets	12	(20,498,261)	(11,241,756)
Purchase of investment in associate	13	(2,360,800)	-
Proceeds from disposal of property, plant and equipment		356,674	163,792
Net cash (used in) investing activities		(223,335,949)	(72,717,188)
Financing activities			
Repayments of borrowings		(17,317,135)	(33,832,045)
Net cash (used in) financing activities		(17,317,135)	(33,832,045)
(Decrease)/increase in cash and cash equivalents		(210,476,417)	255,971,599
Movements in cash and cash equivalents			
At start of year		(278,720,975)	(502,066,174)
(Decrease)/increase		(210,476,417)	255,971,599
Effects of exchange rate changes		82,539,505	(32,626,400)
At end of year	16	(406,657,887)	(278,720,975)

The notes on pages 11 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

NOTES

1. **SIGNIFICANT ACCOUNTING POLICIES**

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

a) **Basis of preparation**

The financial statements have been prepared under the historical cost convention and are in accordance with International Financial Reporting Standards (IFRS).

These financial statement comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 20. Disclosure in respect of capital management are set out in Note 21.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New standards adopted by the company

A number of new and revised Standards and Interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments issued in January 2016 to IAS 7 'Statement of Cash Flows' to improve information provided about an entity's changes in liabilities from financing activities through disclosure (as applicable) of: (i) changes from financing cash flows; (ii) changes from obtaining cash flows; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other charges. These amendments are effective for annual periods beginning on or after 1 January 2017.

- Amendments issued in January 2017 to IAS 12 'Income Taxes' that are effective for annual periods beginning on or after 1 January 2017 clarify that unrealised losses on debt instruments that are carried at fair value give rise to a deductible temporary difference on which deferred tax arises where they are carried as cost for tax purposes.

- Amendments issued in June 2016 to IFRS 2 'Share - based Payment' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.

- IFRS 9 'Financial Instruments' (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is at is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.

In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.

- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18). It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.

- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The directors expect that the future adoption of IFRS 9 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) **Key sources of estimation uncertainty**

In the application of the accounting policies, the directors are required to make certain judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relavant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b) **Key sources of estimation uncertainty (continued)**

The directors have made the following estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

- **Useful lives of property, plant and equipment and intangible assets -** management reviews the useful lives and residual values of the items of property, plant and equipment and intangible assets on a regular basis. During the financial period under review, the directors determined no significant changes in the useful lives and residual values.

- **Impairment of trade receivables -** the company reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

- **Tax losses -** The company has recognised deferred tax assets on tax losses. In determining whether these tax losses will be utilised, the management makes judgement as to whether these will be utilised before they are forfeited based on the requirements of the Income Tax Act. The management expects to utilise the tax losses before they expire.

c) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

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

Sale of goods are recognised upon delivery of products and customer acceptance.

d) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency), at rates ruling at the transaction dates. Assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

e) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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 company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

e) **Property, plant and equipment**

Depreciation is calculated on the reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %	
Buildings	2.5	(Straight line basis)
Motor vehicles	25	
Plant and machinery	7.5	
Computers	30	
Furniture and equipment	12.5	
Generator	25	

Leasehold land has an indefinite useful life and is not depreciated.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

f) **Intangible assets**

Trade marks and licences

Trade marks and licences are shown at historical cost less accumulated amortisation. Amortisation is calculated using the straight line method to write down the cost of trademarks and licences over their estimated useful lives based on a pattern of benefits that are expected to accrue to the company.

g) **Accounting for leases**

Leases of property, plant and equipment, where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period. Such property, plant and equipment is depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period or the lease.

h) **Financial instruments**

Financial assets

The company's financial assets which include cash and bank balances and trade and other receivables fall into the following category:

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the profit or loss.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Financial assets (continued)

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

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

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of profit or loss under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are recognised in profit or loss.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss and for available for sale assets in other comprehensive income in the year in which they occur.

Financial liabilities

Financial liabilities measured at amortised cost : These include borrowings and trade and other payables. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs under the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

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

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i) **Investment in associate**

The investment in the associate is shown at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in the value. Where there has been a permanent diminution in value, it is recognised as an expense in the year in which the diminution is identified.

j) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out (FIFO) method. The cost of packing materials, raw materials, finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads incurred in bringing the inventory to its present location and condition, but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling.

k) **Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

l) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

m) **Employee entitlements**

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

n) **Retirement benefit obligations**

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate they relate.

The company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The company's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

o) **Share capital**

Ordinary and preference shares are classified as equity.

p) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES (CONTINUED)

	2016 Shs	2015 Shs
2. Revenue		
Revenue from sale of pharmaceutical products	3,007,630,419	2,261,503,823
3. Other operating income		
Other income	3,920,583	6,361,877

4. Operating profit

The following items have been charged/(credited) in arriving at the operating profit:

	2016 Shs	2015 Shs
Depreciation on property, plant and equipment (Note 11)	55,982,712	41,949,825
(Gain) on disposal of property, plant and equipment	(12,322)	(84,501)
Amortisation of intangible assets (Note 12)	14,483,048	13,281,708
Staff costs (Note 5)	251,669,154	219,891,479
Directors' remuneration	45,097,697	42,220,963
Auditors' remuneration		
- Current year	1,345,000	770,000
- Under/(over) provision in prior years	37,500	(100,000)
Repairs and maintenance		
- Production	12,653,481	12,800,599
- Establishment	5,294,831	3,616,429
Operating lease rentals	1,145,075	3,002,075
Provision for bad debts	-	11,260,355
Bad debts written off	179,099	1,966,348

5. Staff costs

	2016 Shs	2015 Shs
Salaries and wages		
- Production	161,144,906	136,176,436
- Administration	61,010,136	57,649,967
Other staff costs		
- Staff medical expenses	5,137,274	2,229,837
- Staff welfare expenses	13,113,800	14,424,372
- Work permit	1,539,220	1,330,000
Pension costs:		
- Defined contribution scheme	9,048,818	7,475,247
- National Social Security Fund (NSSF)	675,000	605,620
	251,669,154	219,891,479

6. Finance (income)/costs

	2016 Shs	2015 Shs
Interest expense:		
- Bank overdraft	994,727	2,416,082
- Bank term loans	54,654,966	71,142,783
- Finance leases	1,092,757	402,937
Foreign exchange (gain)/loss	(82,539,505)	32,626,400
	(25,797,055)	106,588,202

7. Tax

	2016 Shs	2015 Shs
Current tax	-	-
Deferred tax charge (Note 10)	160,650,202	93,922,502
	160,650,202	93,922,502

NOTES (CONTINUED)

7. Tax (continued)

	2016 Shs	2015 Shs
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rates as follows:		
Profit before tax	505,435,629	286,637,644
Tax calculated at a tax rate of 30% (2015: 30%)	151,630,689	85,991,293
Tax effect of:		
- underprovision in prior years	5,664,975	-
- expenses not deductible for tax purposes	3,354,537	7,931,209
Tax charge	160,650,202	93,922,502

8. Share capital

	2016 Shs	2015 Shs
Authorised:		
92,946 (2015: 92,946) ordinary shares of Shs. 1,000 each.	92,946,000	92,946,000
89,302 (2015: 89,302) preference shares of Shs. 1,000 each.	89,302,000	89,302,000
	182,248,000	182,248,000
Issued and fully paid:		
92,946 (2015: 92,946) ordinary shares of Shs. 1,000 each.	92,946,000	92,946,000
89,302 (2015: 89,302) preference shares of Shs. 1,000 each.	89,302,000	89,302,000
	182,248,000	182,248,000

9. Borrowings

The borrowings are made up as follows:

	2016 Shs	2015 Shs
Non-current		
Bank term loans	198,247,502	197,246,957
Finance leases	12,096,136	18,571,920
	210,343,638	215,818,877
Current		
Bank term loans	91,502,095	104,291,540
Finance leases	11,300,246	10,352,697
Inventory loan (Note 16)	418,949,493	322,533,279
Bank overdraft (Note 16)	-	68,792
	521,751,833	437,246,308
Total borrowings	732,095,472	653,065,185

9. **Borrowings (continued)**

The borrowings are secured by the following:

a) Bank term loans, inventory loan and bank overdraft:
   - Directors' joint and several personal guarantees for Shs. 82 million and USD 15.8 million.
   - First ranking fixed debenture over plant and machinery of the company for Shs. 82 million and USD 15.8 million.
   - First legal charge over L.R. No. 13777 of Shs. 82 million and USD 15.8 million.

b) Finance leases - joint registration and blank signed transfers.

Weighted average effective interest rates at the reporting date were as follows:	**2016** %	**2015** %
Inventory loan	5.50	8.70
Bank term loans	14.50	16.50
Bank overdraft	14.50	16.50
Finance leases	5.50	8.50

The carrying amounts of the company's borrowings are denominated in the following currencies:

	2016 Shs	**2015** Shs
Kenya Shilling	14,157,595	10,598,003
United States Dollar	717,937,876	642,467,182
	732,095,472	653,065,185

The exposure of the company's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2016 Shs	**2015** Shs
6 months or less	732,095,472	653,065,185
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 2 to 5 years	198,247,502	197,246,957

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate and foreign exchange rate changes.

Finance lease liabilities - minimum lease payments

Not later than 1 year	11,300,246	10,352,697
Later than 1 year but not later than 2 years	12,096,136	18,571,920
	23,396,382	28,924,617

NOTES (CONTINUED)

9. **Borrowings (continued)**

Undrawn facilities at the reporting date were as follows:

	2016 Shs	2015 Shs
Bank overdraft	101,758,750	101,665,208
Inventory loan	348,638,007	444,806,721
	450,396,757	546,471,929

10. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	2016 Shs	2015 Shs
At start of year	76,054,804	(17,867,698)
Charge to profit or loss (Note 6)	160,650,202	93,922,502
At end of year	236,705,006	76,054,804

Deferred tax liabilities/(assets) in the statement of financial position and deferred tax charge/(credit) to profit or loss are attributable to the following items:

	At start of year Shs	Charge/(credit) to profit or loss Shs	At end of year Shs
Deferred tax liabilities			
Property, plant and equipment			
- historical cost	235,334,015	15,409,941	250,743,956
Deferred tax (assets)			
Tax losses carried forward	(147,307,892)	128,059,688	(19,248,204)
Unrealised exchange differences	(8,593,212)	13,802,465	5,209,253
Provisions	(3,378,107)	3,378,107	-
	(159,279,211)	145,240,260	(14,038,951)
Net deferred tax liabilities	76,054,804	160,650,201	236,705,006

NOTES (CONTINUED)

11. **Property, plant and equipment**

Year ended 31 December 2016

	Buildings Shs	Leasehold land Shs	Motor vehicles Shs	Plant and machinery Shs	Computers Shs	Furniture and equipment Shs	Generator Shs	Capital-work-in progress Shs	Total Shs
Cost									
At start of year	500,405,750	2,500,000	21,623,235	788,375,809	30,541,086	7,284,444	6,562,500	30,009,996	1,387,302,81
Additions	-	-	7,142,983	117,524,948	22,084,451	1,796,201	-	52,284,979	200,833,56
Disposal	-	-	(1,428,801)	-	-	-	-	-	(1,428,80
Transfer from WIP	82,294,975	-	-	-	-	-	-	(82,294,975)	-
At end of year	582,700,725	2,500,000	27,337,417	905,900,757	52,625,537	9,080,645	6,562,500	-	1,586,707,58
Depreciation									
At start of year	109,358,736	555,550	14,562,477	477,032,537	22,220,683	4,352,880	5,540,514	-	633,623,37
On disposal	-	-	(1,084,448)	-	-	-	-	-	(1,084,44
Charge for the year	11,833,550	-	3,464,857	30,706,740	9,131,085	590,983	255,497	-	55,982,71
At end of year	121,192,286	555,550	16,942,886	507,739,277	31,351,768	4,943,863	5,796,011	-	688,521,63
Net book value	461,508,439	1,944,450	10,394,531	398,161,481	21,273,769	4,136,782	766,489	-	898,185,94

NOTES (CONTINUED)

11. **Property, plant and equipment (continued)**

Year ended 31 December 2015

	Buildings Shs	Leasehold land Shs	Motor vehicles Shs	Plant and machinery Shs	Computers Shs	Furniture and equipment Shs	Generator Shs	Capital-work-in progress Shs	Total Shs
Cost									
At start of year	500,405,750	2,500,000	19,379,269	765,009,258	26,028,867	6,833,986	6,562,500	-	1,326,719,62
Additions	-	-	3,300,000	23,366,551	4,512,219	450,458	-	30,009,996	61,639,22
Disposals	-	-	(1,056,034)	-	-	-	-	-	(1,056,03
At end of year	500,405,750	2,500,000	21,623,235	788,375,809	30,541,086	7,284,444	6,562,500	30,009,996	1,387,302,8
Depreciation									
At start of year	99,331,890	555,550	13,185,633	451,788,488	18,654,796	3,934,085	5,199,852	-	592,650,2
On disposal	-	-	(976,742)	-	-	-	-	-	(976,7
Charge for the year	10,026,847	-	2,353,586	25,244,049	3,565,887	418,795	340,662	-	41,949,8
At end of year	109,358,736	555,550	14,562,477	477,032,537	22,220,683	4,352,880	5,540,514	-	633,623,3
Net book value	391,047,014	1,944,450	7,060,758	311,343,273	8,320,403	2,931,564	1,021,986	30,009,996	753,679,4

NOTES (CONTINUED)

12. Intangible assets

	2016 Shs	2015 Shs
Cost		
At start of year	197,368,497	186,126,741
Additions	20,498,261	11,241,756
At end of year	217,866,758	197,368,497
Amortisation		
At start of year	67,496,941	54,215,233
Charge for the year	14,483,048	13,281,708
At end of year	81,979,989	67,496,941
Net book value	135,886,769	129,871,556

13. Investment in associate

	% Holding	2016 Shs	2015 Shs
342 Ordinary shares of Ethiopian Birr 1,000 each in Regional Bioequivalence Centre Limited	24.98%	5,813,188	3,452,388

14. Inventories

	2016 Shs	2015 Shs
Packing materials	130,917,634	79,707,548
Raw materials	350,457,608	163,280,826
Finished goods	197,132,508	238,162,508
Work in progress	18,162,693	8,006,226
Goods in transit	77,906,968	45,905,612
	774,577,411	535,062,720

15. Trade and other receivables

	2016	2015
Trade receivables	715,326,273	418,814,434
Less: provision for impairment	-	(11,260,355)
Net trade receivables	715,326,273	407,554,079
Other receivables	82,381,670	41,879,859
	797,707,942	449,433,938

Movement in impairment provisions

	2016	2015
At start of year	11,282,395	11,282,395
Write off	(11,282,395)	(11,282,395)
Additions	-	11,282,395
At end of year	-	11,282,395

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The company's credit risk arises primarily from trade receivables. The directors are of the opinion that the company's exposure is limited because the debt is widely held.

15. **Trade and other receivables (continued)**

The carrying amounts of the company's trade and other receivables are denominated in the following currencies:

	2016 Shs	2015 Shs
Kenya Shilling	605,343,659	257,069,655
United States Dollar	192,364,283	192,364,283
	797,707,942	449,433,938

As of 31 December 2016, trade receivables amounting to Shs. 44,158,127 (2015: Shs. 20,334,354) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 Shs	2015 Shs
4 to 12 months	44,158,127	20,334,354

No other classes within trade and other receivables contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

16. **Cash and cash equivalents**	2016 Shs	2015 Shs
Cash at bank and in hand	12,291,606	43,881,096

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	2016 Shs	2015 Shs
Cash at bank and in hand	12,291,606	43,881,096
Bank overdraft (Note 9)	-	(68,792)
Inventory loan (Note 9)	(418,949,493)	(322,533,279)
	(406,657,887)	(278,720,975)

The carrying amounts of the company's cash at bank and cash in hand are denominated in the following currencies:

	2016 Shs	2015 Shs
Kenya Shilling	7,073,103	5,948,602
Euro	258,189	-
United States Dollar	4,960,314	37,932,494
	12,291,606	43,881,096

17. Trade and other payables

	2016 Shs	2015 Shs
Trade payables	309,655,981	199,939,955
Other payables	17,149,868	26,948,328
Payable to related parties (Note 19)	27,617,775	2,919,541
	354,423,624	229,807,824

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are denominated in the following currencies:

	2016 Shs	2015 Shs
Kenya Shilling	112,494,556	128,425,213
Euro	5,022,973	580,347
United States Dollar	236,906,095	100,802,264
	354,423,624	229,807,824

The maturity analysis of trade and other payables is as follows:

Year ended 31 December 2016

	0 to 3 months Shs	4 to 12 months Shs	Total Shs
Trade payables	77,413,995	232,241,986	309,655,981
Other payables	17,149,868	-	17,149,868
Payable to related parties	-	27,617,775	27,617,775
	94,563,863	259,859,761	354,423,624

Year ended 31 December 2015

	0 to 3 months Shs	4 to 12 months Shs	Total Shs
Trade payables	36,872,569	163,067,386	199,939,955
Other payables	26,948,328	-	26,948,328
Payable to related parties	-	2,919,541	2,919,541
	63,820,897	165,986,927	229,807,824

18. Cash from operations

	2016 Shs	2015 Shs
Reconciliation of profit before tax to cash from operations:		
Profit before tax	505,435,629	286,637,644
Adjustments for:		
Depreciation on property, plant and equipment (Note 11)	55,982,712	41,949,825
Amortisation of intangible assets (Note 12)	14,483,048	13,281,708
Gain on disposal of property, plant and equipment	(12,322)	(84,501)
Interest expense	56,742,450	73,961,802
Foreign exchange (gain)/loss	(82,539,505)	32,626,400
Changes in working capital		
- inventories	(239,514,691)	81,427,812
- trade and other receivables	(348,274,004)	(55,231,269)
- trade and other payables	124,615,800	(38,086,787)
Cash from operations	86,919,117	436,482,634

19. Related party transactions and balances

a) The following transactions were carried out with related parties:	2016 Shs	2015 Shs
(i) Sale of goods and services	92,160	1,886,605
(ii) Purchase of goods	21,891,911	6,759,011
b) Outstanding balances		
(i) Payable to related parties (Note 17)	27,617,775	2,919,541
c) Key management compensation		
Short term employee benefits - directors	45,851,082	43,022,467

20. Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management.

20. **Risk management objectives and policies (continued)**

Financial risk management (continued)

(a) **Market risk**

- *Foreign exchange risk*

The company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar and the Euro. The risk arises from future transactions, assets and liabilities in the statement of financial position.

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against the each currency, with all other variables held constant. If the Kenya Shilling strengthened by the same percentage against each currency, the effect would have been the opposite.

		Year 2016	
	Euro Shs	**US Dollar Shs**	**Total Shs**
Effect on profit - (decrease)	(333,535)	(53,026,356)	(53,359,891)
		Year 2015	
	Euro Shs	**US Dollar Shs**	**Total Shs**
Effect on loss - (decrease)	(40,624)	(51,261,467)	(51,302,091)

- *Cash flow and interest rate risk*

The company's exposure to interest rate risk arises primarily from borrowings. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk.

At 31 December 2016, if interest rates at that date had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been Shs. 3,971,972 (2015: Shs. 5,177,326) lower, arising mainly as a result of higher interest expense on variable borrowings. Had interest rates been 100 basis points lower, the effect would have been the opposite.

(b) **Credit risk**

Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding receivables.

If customers are internally rated, these ratings are used. Otherwise, if there is no internal rating, management assesses the credit quality of the customer, taking into account their account their financial position, past experience and other factors.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

20. **Risk management objectives and policies (continued)**

Financial risk management (continued)

(c) **Liquidity risk**

Cash flow forecasting is performed by the finance department of the company by monitoring the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 9 and 17 disclose the maturity analysis of borrowings and trade and other payables respectively.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

The key assumptions made in the maturity profile are:

- changes in interest rates have not been accounted for as these cannot be predicted;
- changes in foreign exchange rates have not been accounted for as these cannot be predicted; and
- the borrowings will be repaid based on the repayment schedule agreed with the lenders.

Year ended 31 December 2016

	Interest rate %	Between 0 - 12 months Shs	Between 12 - 36 months Shs	Total Shs
Interest bearing liabilities				
- Bank term loans	5.5%	96,534,710	209,151,115	305,685,825
- Finance leases	14.5%	12,938,781	13,850,076	26,788,857
- Inventory loan	14.5%	479,697,169	-	479,697,169
Non-interest bearing liabilities				
- Trade and other payables	NIL	354,423,624	-	354,423,624
		943,594,284	223,001,191	1,166,595,475

Year ended 31 December 2015

	Interest rate %	Between 0 - 12 months Shs	Between 12 - 36 months Shs	Total Shs
Interest bearing liabilities				
- Bank term loans	8.7%	113,364,903	214,407,443	327,772,346
- Finance leases	16.5%	12,060,892	21,636,287	33,697,179
- Inventory loan	16.5%	375,751,270	-	375,751,270
- Bank overdraft	8.5%	68,792	-	68,792
Non-interest bearing liabilities				
- Trade and other payables	NIL	229,807,824	-	229,807,824
		731,053,682	236,043,729	967,097,411

21. Capital management

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products commensurately with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business; and
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Capital comprises all components of equity.

The debt-to-capital ratios at 31 December 2016 and 2015 were as follows:

	2016 Shs	2015 Shs
Total borrowings (Note 9)	732,095,472	653,065,185
Less cash and cash equivalents (Note 16)	(12,291,606)	(43,881,096)
Net debt	719,803,865	609,184,089
Total equity	1,301,238,756	956,453,329
Gearing ratio	1 : 1.13	1 : 1.39

The decrease in the debt-to-capital ratio during 2016 resulted primarily from improved performance.

22. Commitments

Contractual commitments for the acquisition of property, plant and equipment

At the reporting date these commitments were as follows:	2016 Shs	2015 Shs
Property, plant and equipment	11,797,334	28,139,988

23. Incorporation

Universal Corporation Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya.

24. Presentation currency

The financial statements are presented in Kenya Shillings (Shs).

MANUFACTURING ACCOUNT

	2016 Shs	2015 Shs
1. COST OF SALES		
Opening stock of finished goods and work in progress	246,168,734	219,885,610
Cost of raw and packing materials consumed (1.1)	1,907,737,830	1,395,187,011
Production costs (1.2)	278,951,608	229,448,890
Closing stock of finished goods and work in progress	(215,295,201)	(246,168,734)
Total cost of sales	2,217,562,971	1,598,352,777

(1.1) COST OF RAW AND PACKING MATERIALS CONSUMED

	2016 Shs	2015 Shs
Opening stock of raw and packaging materials	242,988,374	337,828,358
Purchases	1,970,700,821	1,176,922,441
Freight and forwarding	175,423,877	123,424,586
Closing stock of raw and packaging materials	(481,375,242)	(242,988,374)
Total cost of raw and packaging materials consumed	1,907,737,830	1,395,187,011

(1.2) PRODUCTION COSTS

	2016 Shs	2015 Shs
Salaries and wages	170,868,724	144,257,303
Lab consumables	20,981,967	20,434,250
Electricity and water	28,498,787	23,164,040
Analysis and inspection	461,265	279,700
KBS levy	400,000	400,000
Fuel and gas	18,857,866	10,653,795
Repairs and maintenance	12,653,481	12,800,599
Sanitation expense	2,943,199	2,419,497
General expenses	23,286,320	15,039,706
Total production costs	278,951,608	229,448,890

SCHEDULE OF OTHER EXPENDITURE

	2016 Shs	2015 Shs
1. DEPRECIATION ON PROPERTY, PLANT AND EQUIPMENT		
Depreciation on property, plant and equipment	55,982,712	41,949,825
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	61,010,136	57,649,967
Staff medical expenses	5,137,274	2,229,837
Staff welfare expenses	13,113,800	14,424,372
Work permit	1,539,220	1,330,000
Total employment costs	80,800,430	75,634,176
Other administrative expenses:		
Directors' remuneration	45,097,697	42,220,963
Travelling and entertainment	29,356,216	12,154,424
Postages and telephones	2,974,431	3,707,187
Printing and stationery	3,947,059	3,426,798
Advertising	7,041,333	6,787,108
Vehicle running expenses	10,868,127	9,824,640
Audit fees		
- Current year	1,345,000	770,000
- Under/(over) provision in prior years	37,500	(100,000)
Legal and professional fees	20,077,203	18,489,763
Bank charges	14,608,880	6,910,544
Bad debts written off	179,099	1,966,348
Provision for bad debts	-	11,260,355
Donations	296,800	497,890
Subscriptions	471,000	713,526
Miscellaneous expenses	582,652	1,086,911
Total other administrative expenses	136,882,998	119,716,457
Total administrative expenses	217,683,428	195,350,633
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	1,145,075	3,002,075
Security	2,094,829	2,122,575
Repairs and maintenance	5,294,831	3,616,429
Insurance	15,428,169	15,519,233
Licences	2,249,686	1,529,100
Amortisation of intangible assets	14,483,048	13,281,708
Gain on disposal of property, plant and equipment	(12,322)	(84,501)
Total other operating expenses	40,683,317	38,986,619

SCHEDULE OF OTHER EXPENDITURE (CONTINUED)

	2016 Shs	2015 Shs
3. FINANCE (INCOME)/COSTS		
Bank overdraft interest	994,727	2,416,082
Bank term loans interest	54,654,966	71,142,783
Finance lease interest	1,092,757	402,937
Foreign exchange (gain)/loss	(82,539,505)	32,626,400
Total finance (income)/costs	(25,797,055)	106,588,202