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COMPANY INFORMATION

BOARD OF DIRECTORS	: Perviz Rajnikant Dhanani : Rupen Haria : Coutts Akolo Otolu : Umesh Pralhadrao Kale : Mohana Kumar Pillai : Venkata Seetha Rama Raju Pakalapati : Shashank Surendra Sinha
REGISTERED OFFICE	: L.R. No. 13777 : Club Road, Kikuyu : P.O. Box 1748, 00902 : KIKUYU
PRINCIPAL PLACE OF BUSINESS	: L.R. No. 13777 : KIKUYU : Telephone: +254 066 32305/31459/61/62 : Fax: +254 066 31461 : info@ucl.co.ke
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

The directors submit their report and the audited financial statements for the period ended 31 March 2018, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

During the period, total turnover of the company decreased from Shs. 3,007,630,419 to Shs. 2,843,702,049. This was largely attributed to less tenders of Sulfran and introduction of new IT systems for improved processes thus delay in production throughout the year.

The profit before tax increased from of Shs. 505,435,629 to Shs. 228,766,015 reflecting the effects of the above mentioned factors.

As at 31 March 2018, the net asset position of the company was Shs. 1,553,084,349 compared to Shs. 1,320,766,643 as at 31 December 2016.

KEY PERFORMANCE INDICATORS

	15 month period ending 31 March 2018	12 month period ending 31 December 2016
Turnover (Shs)	2,843,702,049	3,007,630,419
Gross profit (Shs)	832,681,097	790,067,448
Gross profit margin (%)	29%	26%
Profit for the year (Shs)	232,317,705	364,313,314
Net assets (Shs)	1,553,084,348	1,320,766,643

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the company's products and services. The company's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions.

In addition to the business risk(s) discussed above, the company's activities expose it to a number of financial risks which are described in detail in Note 20 to the financial statements.

DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2016: 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.

REPORT OF THE DIRECTORS (CONTINUED)

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

- (a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD



**DIRECTOR
NAIROBI**

12/9/ 2018

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 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 the 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 March 2018 and of its 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.

Approved by the board of directors on 12/09/ 2018 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 8 to 30 which comprise the statement of financial position as at 31 March 2018, statement of profit or loss, statement of changes in equity and statement of cash flows for the period 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 company as at 31 March 2018, and of its financial performance and cash flows for the period 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, statement of directors' responsibilities, manufacturing account and schedule of other 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 IFRS 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.

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UNIVERSAL CORPORATION (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 have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

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

12 September 2018

1184/18

Universal Corporation Limited
 Financial statements
 For the period ended 31 March 2018

STATEMENT OF PROFIT OR LOSS

	Notes	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
Revenue	2	2,843,702,049	3,007,630,419
Cost of sales		<u>(2,011,020,952)</u>	<u>(2,217,562,971)</u>
Gross profit		832,681,097	790,067,448
Other operating income	3	10,014,320	3,920,583
Depreciation on property, plant and equipment and amortisation of intangible assets	11 & 12	(145,603,531)	(70,465,760)
Administrative expenses		(350,794,966)	(217,683,428)
Other operating expenses		<u>(51,691,203)</u>	<u>(26,200,269)</u>
Operating profit	4	294,605,717	479,638,574
Finance (costs)/income	6	<u>(65,839,702)</u>	<u>25,797,055</u>
Profit before tax		228,766,015	505,435,629
Tax	7	<u>3,551,690</u>	<u>(141,122,315)</u>
Profit for the year		<u><u>232,317,705</u></u>	<u><u>364,313,314</u></u>

The notes on pages 12 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

Universal Corporation Limited
 Financial statements
 For the period ended 31 March 2018

STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		31 March 2018 Shs	31 December 2016 Shs
CAPITAL EMPLOYED			
Share capital	8	182,248,000	182,248,000
Share premium		723,949,006	723,949,006
Retained earnings		646,887,342	414,569,637
		<u>1,553,084,348</u>	<u>1,320,766,643</u>
Shareholders' funds			
Non-current liabilities			
Borrowings	9	420,757,885	210,343,638
Deferred tax	10	213,625,429	217,177,119
		<u>634,383,314</u>	<u>427,520,757</u>
		<u>2,187,467,662</u>	<u>1,748,287,400</u>
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	1,242,061,402	898,185,941
Intangible assets	12	144,052,550	135,886,769
Investment in associate	13	5,813,188	5,813,188
		<u>1,391,927,140</u>	<u>1,039,885,898</u>
Current assets			
Inventories	14	928,180,899	774,577,411
Trade and other receivables	15	1,161,789,015	797,707,942
Cash and cash equivalents	16	1,149,674	12,291,606
		<u>2,091,119,588</u>	<u>1,584,576,959</u>
Current liabilities			
Borrowings	9	808,487,795	521,751,833
Trade and other payables	17	487,091,271	354,423,624
		<u>1,295,579,066</u>	<u>876,175,457</u>
		<u>795,540,522</u>	<u>708,401,502</u>
Net current assets		<u>2,187,467,662</u>	<u>1,748,287,400</u>

The financial statements on pages 8 to 30 were approved and authorised for issue by the Board of Directors on 12/09/2018 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 12 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Share premium Shs	Retained earning Shs	Total Shs
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	-	-	364,313,314	364,313,314
At end of year	<u>182,248,000</u>	<u>723,949,006</u>	<u>414,569,637</u>	<u>1,320,766,643</u>
Period ended 31 March 2018				
At start of year	182,248,000	723,949,006	414,569,637	1,320,766,643
Profit for the year	-	-	232,317,705	232,317,705
At end of year	<u>182,248,000</u>	<u>723,949,006</u>	<u>646,887,342</u>	<u>1,553,084,348</u>

The notes on pages 12 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

STATEMENT OF CASH FLOWS

	Notes	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
Operating activities			
Cash from operations	18	55,192,334	86,919,11
Interest paid		(100,749,403)	(56,742,45)
Net cash (used in)/from operating activities		(45,557,069)	30,176,66
Investing activities			
Purchase of property, plant and equipment	11	(458,592,343)	(200,833,56)
Purchase of intangible assets	12	(39,052,429)	(20,498,26)
Purchase of investment in associate		-	(2,360,80)
Proceeds from disposal of property, plant and equipment		-	356,67
Net cash (used in) investing activities		(497,644,772)	(223,335,94)
Financing activities			
Proceeds from long-term borrowings		444,113,644	114,410,31
Repayments of long-term borrowings		(234,816,597)	(126,434,72)
Payments under finance leases		(9,514,471)	(5,292,72)
Net cash from/(used in) financing activities		199,782,576	(17,317,13)
Decrease in cash and cash equivalents		(343,419,265)	(210,476,41)
Movements in cash and cash equivalents			
At start of year		(406,657,887)	(278,720,97)
Decrease		(343,419,265)	(210,476,41)
Effects of exchange rate changes		34,909,701	82,539,50
At end of year	16	(715,167,451)	(406,657,88)

The notes on pages 12 to 30 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

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 statements comply with the requirements of the Kenyan Companies Act. 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. Disclosures 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, amendments and interpretations 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:

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' (Annual Improvements to IFRSs 2014–2017 Cycle, issued in December 2017) - The amendment, applicable to annual periods beginning on or after 1 January 2018, clarifies that exemption from applying the equity method is available separately for each associate or joint venture at initial recognition.
- Amendments to IAS 40 'Transfers of Investment Property' (issued in December 2017) that are effective for annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.
- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) that is effective for annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.
- Amendments issued in June 2017 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.
- Amendments to IFRS 4 titled Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued in September 2017) that are effective for annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial.
- 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 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 2017) 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.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability. It also clarifies that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

The directors expect that the future adoption of IFRS 9, IFRS 15 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 Standard 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 relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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:

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Key sources of estimation uncertainty (continued)

- **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 requirement of the Income Tax Act.

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.

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:

	<u>Rate %</u>	
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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

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/(loss).

f) Intangible assets

Software Costs

Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred in profit or loss. Costs that are directly associated with the purchase of identifiable software products controlled by the company, that will probably generate economic benefits exceeding beyond one year, are recognised as intangible assets. Intangible assets are amortised over their useful life on a straight line basis at the rate of 20%.

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 of 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.

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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Financial assets (continued)

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.

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.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) 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.

n) Employee entitlements

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

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)

	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
2. Revenue		
Revenue from sale of pharmaceutical products	2,843,702,049	3,007,630,419
3. Other operating income		
Other income	10,014,320	3,920,583
4. Operating profit		
The following items have been charged/(credited) in arriving at the operating profit:		
Depreciation on property, plant and equipment (Note 11)	114,716,883	55,982,712
Gain on disposal of property, plant and equipment	-	(12,322)
Amortisation of intangible assets (Note 12)	30,886,648	14,483,048
Staff costs (Note 5)	420,377,984	251,669,154
Directors' remuneration	60,352,407	45,097,697
Auditors' remuneration		
- Current year	2,085,978	1,345,000
- Underprovision in prior years	-	37,500
Repairs and maintenance		
- Production	21,206,789	12,653,481
- Administration	11,524,252	5,294,831
Rent and rates	9,755,675	1,145,075
Provision for bad debts	11,413,945	-
Bad debts written off	-	179,099
5. Staff costs		
Salaries and wages		
- Production	261,779,414	161,154,706
- Administration	103,952,925	61,010,136
Other staff costs		
- Staff medical expenses	7,381,996	5,137,274
- Staff welfare expenses	34,890,821	13,113,800
- Work permit	2,649,010	1,539,220
Pension costs:		
- Defined contribution scheme	9,048,818	9,048,818
- National Social Security Fund (NSSF)	675,000	665,200
	420,377,984	251,669,154
The average number of persons employed during the year, by category, were:		
	2018	2016
	No.	No.
Production	179	150
Quality control	108	73
Engineering	26	22
Administration	77	76
	390	321

	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
6. Finance costs		
Interest expense:		
- Bank overdraft	4,057,345	994,727
- Bank term loans	95,335,611	54,654,966
- Finance leases	95,335,611	1,092,757
Foreign exchange (gain)	(34,909,701)	(82,539,505)
	<u>159,818,867</u>	<u>(25,797,055)</u>
7. Tax		
Current tax	-	-
	<u>(3,551,690)</u>	<u>141,122,315</u>
Deferred tax (credit) (Note 10)	<u>(3,551,690)</u>	<u>141,122,315</u>
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	<u>228,766,015</u>	<u>505,435,629</u>
Tax calculated at a tax rate of 30% (2016: 30%)	68,629,805	151,630,689
Tax effect of:		
- capital expenditure eligible for 150% deduction	(52,444,799)	(19,527,887)
- expenses not deductible for tax purposes	16,635,001	9,019,513
- Other differences	(36,371,696)	-
Tax charge	<u>(3,551,690)</u>	<u>141,122,315</u>
8. Share capital		
Authorised, issued and fully paid:		
92,946 (2016: 92,946) ordinary shares of Shs. 1,000 each.	92,946,000	92,946,000
89,302 (2016: 89,302) preference shares of Shs. 1,000 each.	89,302,000	89,302,000
	<u>182,248,000</u>	<u>182,248,000</u>
9. Borrowings		
The borrowings are made up as follows:		
Non-current		
Bank term loans	412,858,253	198,247,502
Finance leases	7,899,632	12,096,136
	<u>420,757,885</u>	<u>210,343,638</u>
Current		
Bank term loans	86,959,159	91,502,095
Finance leases	5,211,510	11,300,246
Inventory loan (Note 16)	599,217,581	418,949,493
Bank overdraft (Note 16)	117,099,545	-
	<u>808,487,795</u>	<u>521,751,833</u>
Total borrowings	<u>1,229,245,680</u>	<u>732,095,472</u>

NOTES (CONTINUED)

9. Borrowings (continued)

Reconciliation of liabilities arising from financing activities:

	Borrowings Shs	Finance leases Shs	Total Shs
Year ended 31 March 2018			
At start of period	289,749,597	23,396,381	313,145,978
Interest charged to profit or loss	95,335,611	1,356,446	96,692,057
Foreign exchange loss	13,361,166	-	13,361,166
Cash flows:			
- Operating activities (interest paid)	(95,335,611)	(1,356,446)	(96,692,057)
- Proceeds from long-term borrowings	430,752,478	-	430,752,478
- Repayments of long-term borrowings	(234,816,597)	-	(234,816,597)
- Repayments under finance leases	-	(9,514,471)	(9,514,471)
At end of period	<u>499,046,644</u>	<u>13,881,910</u>	<u>512,928,554</u>
Year ended 31 December 2016			
At start of year	301,774,007	28,689,106	330,463,112
Interest charged to profit or loss	22,257,616	3,982,922	26,240,538
Foreign exchange (gain)	(2,717,355)	-	(2,717,355)
Cash flows:			
- Operating activities (interest paid)	(22,257,616)	(3,982,922)	(26,240,538)
- Proceeds from long-term borrowings	117,127,671	-	117,127,671
- Repayments of long-term borrowings	(126,434,726)	-	(126,434,726)
- Repayments under finance leases	-	(5,292,725)	(5,292,725)
At end of year	<u>289,749,597</u>	<u>23,396,381</u>	<u>313,145,978</u>

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.
 - Legal charge over L.R. No. 13777 of Shs. 78 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:	2018 %	2016 %
Inventory loan	8.00	5.50
Bank term loans	8.00	14.50
Bank overdraft	8 - 14	14.50
Finance leases	<u>14.00</u>	<u>14.00</u>

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

	2018 Shs	2016 Shs
Kenya Shilling	34,256,680	14,157,595
United States Dollar	<u>1,194,989,000</u>	<u>717,937,876</u>
	<u>1,229,245,680</u>	<u>732,095,472</u>

NOTES (CONTINUED)

9. Borrowings (continued)

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

	2018 Shs	2016 Shs
6 months or less	<u>716,317,126</u>	<u>418,949,493</u>
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 2 to 5 years	<u>412,858,253</u>	<u>198,247,502</u>

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.

	2018 Shs	2016 Shs
Finance lease liabilities - minimum lease payments		
Not later than 1 year	5,211,510	11,300,246
Later than 1 year but not later than 2 years	<u>7,899,632</u>	<u>12,096,136</u>
	<u>13,111,142</u>	<u>23,396,382</u>

Undrawn facilities at the reporting date were as follows:

Bank overdraft	3,795,101	101,758,750
Inventory loan	369,782,419	348,638,007
Bank term loans	<u>333,522,588</u>	<u>-</u>
	<u>707,100,108</u>	<u>450,396,757</u>

10. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%). The movement on the deferred tax account is as follows:

	2018 Shs	2016 Shs
At start of year	217,177,119	76,054,804
Charge to profit or loss (Note 6)	<u>(3,551,690)</u>	<u>141,122,315</u>
At end of year	<u>213,625,429</u>	<u>217,177,119</u>

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 period Shs	Charge/(credit) to profit or loss Shs	At end of period Shs
Deferred tax liabilities			
Property, plant and equipment			
- accelerated tax depreciation	<u>231,216,069</u>	<u>60,370,146</u>	<u>291,586,215</u>
Deferred tax (assets)			
Tax losses carried forward	(19,248,204)	(54,823,089)	(74,071,293)
Provision for leave days	-	(2,255,124)	(2,255,124)
Unrealised exchange differences	5,209,254	5,394,137	10,603,391
Other differences	<u>-</u>	<u>(12,237,760)</u>	<u>(12,237,760)</u>
	<u>(14,038,950)</u>	<u>(63,921,836)</u>	<u>(77,960,786)</u>
Net deferred tax liabilities	<u>217,177,119</u>	<u>(3,551,690)</u>	<u>213,625,429</u>

NOTES (CONTINUED)

11. Property, plant and equipment

Period ended 31 March 2018

Cost	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
At start of year	582,700,725	2,500,000	27,337,418	905,900,757	52,625,537	9,080,645	6,562,500	-	1,586,707,582
Additions	113,924,258	-	1,400,000	171,765,715	14,536,568	6,646,834	-	150,318,968	458,592,343
Transfer from CWIP	-	-	-	96,999,389	-	-	-	(96,999,389)	-
At end of year	696,624,983	2,500,000	28,737,418	1,174,665,861	67,162,105	15,727,479	6,562,500	53,319,579	2,045,299,925
Depreciation									
At start of year	121,192,286	555,550	16,942,886	507,739,277	31,351,768	4,943,863	5,796,011	-	688,521,640
Charge for the year	33,549,997	-	3,348,350	67,346,816	9,016,701	1,215,491	239,528	-	114,716,883
At end of year	154,742,283	555,550	20,291,236	575,086,093	40,368,469	6,159,354	6,035,539	-	803,238,523
Net book value	541,882,700	1,944,450	8,446,182	599,579,768	26,793,636	9,568,125	526,961	53,319,579	1,242,061,402

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NOTES (CONTINUED)

11. Property, plant and equipment (continued)

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	1,387,302,820
Additions	-	-	7,142,983	117,524,948	22,084,451	1,796,201	-	52,284,979	200,833,562
Disposal	-	-	(1,428,800)	-	-	-	-	-	(1,428,800)
Transfer from CWIP	82,294,975	-	-	-	-	-	-	(82,294,975)	-
At end of year	582,700,725	2,500,000	27,337,418	905,900,757	52,625,537	9,080,645	6,562,500	-	1,586,707,582
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	-	633,623,376
On disposal	-	-	(1,084,448)	-	-	-	-	-	(1,084,448)
Charge for the year	11,833,550	-	3,464,857	30,706,740	9,131,085	590,983	255,497	-	55,982,712
At end of year	121,192,286	555,550	16,942,886	507,739,277	31,351,768	4,943,863	5,796,011	-	688,521,640
Net book value	461,508,439	1,944,450	10,394,532	398,161,481	21,273,769	4,136,782	766,489	-	898,185,941

NOTES (CONTINUED)

12. Intangible assets	2018 Shs	2016 Shs
Cost		
At start of year	217,866,758	197,368,497
Additions	39,052,429	20,498,261
At end of year	<u>256,919,187</u>	<u>217,866,758</u>
Amortisation		
At start of year	81,979,989	67,496,941
Charge for the year	30,886,648	14,483,048
At end of year	<u>112,866,637</u>	<u>81,979,989</u>
Net book value	<u>144,052,550</u>	<u>135,886,769</u>
13. Investment in associate		
	% Holding	
342 Ordinary shares of Ethiopian Birr 1,000 each in Regional Bioequivalence Centre Limited	24.98%	<u>5,813,188</u>
		<u>5,813,188</u>
14. Inventories		
Packing materials	172,073,071	130,917,634
Raw materials	581,941,554	350,457,608
Finished goods	133,677,740	197,132,508
Work in progress	33,354,960	18,162,693
Goods in transit	7,133,574	77,906,968
	<u>928,180,899</u>	<u>774,577,411</u>
15. Trade and other receivables		
Trade receivables	996,760,852	715,326,272
Less: provision for impairment	(11,413,945)	-
Net trade receivables	985,346,908	715,326,272
Other receivables	133,591,698	82,381,670
Amounts due from directors (Note 19)	27,147,578	-
Receivable from related parties (Note 19)	15,702,831	-
	<u>1,161,789,015</u>	<u>797,707,942</u>
Movement in impairment provisions		
At start of year	-	11,282,395
Write off	-	(11,282,395)
Additions	11,413,945	-
At end of year	<u>11,413,945</u>	<u>-</u>

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.

NOTES (CONTINUED)

15. Trade and other receivables (continued)

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

	2018 Shs	2016 Shs
Kenya Shilling	661,819,610	605,343,659
United States Dollar	<u>499,969,405</u>	<u>192,364,283</u>
	<u>1,161,789,015</u>	<u>797,707,942</u>

As of 31 March 2018, trade receivables amounting to Shs. 52,939,946 (2016: Shs. 44,158,127) 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:

	2018 Shs	2016 Shs
4 to 12 months	<u>52,939,946</u>	<u>44,158,127</u>

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

	2018 Shs	2016 Shs
Cash at bank and in hand	<u>1,149,674</u>	<u>12,291,606</u>

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

Cash at bank and in hand	1,149,674	12,291,606
Bank overdraft (Note 9)	(117,099,545)	-
Inventory loan (Note 9)	<u>(599,217,581)</u>	<u>(418,949,493)</u>
	<u>(715,167,451)</u>	<u>(406,657,887)</u>

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

	2018 Shs	2016 Shs
Kenya Shilling	601,888	7,073,103
Euro	21,990	258,189
United States Dollar	<u>525,796</u>	<u>4,960,314</u>
	<u>1,149,674</u>	<u>12,291,606</u>

17. Trade and other payables

Trade payables	458,819,592	309,655,981
Other payables	25,436,205	17,149,868
Payable to related parties (Note 19)	<u>2,835,474</u>	<u>27,617,775</u>
	<u>487,091,271</u>	<u>354,423,624</u>

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

NOTES (CONTINUED)

17. Trade and other payables (continued)

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

	2018 Shs	2016 Shs
Kenya Shilling	449,466,718	112,494,556
Euro	5,022,973	5,022,973
United States Dollar	32,601,580	236,906,095
	<u>487,091,271</u>	<u>354,423,624</u>

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

Period ended 31 March 2018

	0 to 3 months months Shs	4 to 12 months months Shs	Total Shs
Trade payables	68,822,939	389,996,653	458,819,592
Other payables	25,436,205	-	25,436,205
Payable to related parties	-	2,835,474	2,835,474
	<u>94,259,144</u>	<u>392,832,127</u>	<u>487,091,271</u>

Year ended 31 December 2016

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
	<u>94,563,863</u>	<u>259,859,761</u>	<u>354,423,624</u>

18. Cash from operations

	2018 Shs	2016 Shs
Reconciliation of profit before tax to cash from operations:		
Profit before tax	228,766,015	505,435,629
Adjustments for:		
Depreciation on property, plant and equipment (Note 11)	114,716,883	55,982,712
Amortisation of intangible assets (Note 12)	30,886,648	14,483,048
Gain on disposal of property, plant and equipment	-	(12,322)
Interest expense	100,749,403	56,742,450
Foreign exchange (gain)	(34,909,701)	(82,539,505)
Changes in working capital		
- inventories	(153,603,488)	(239,514,691)
- trade and other receivables	(364,081,073)	(348,274,004)
- trade and other payables	<u>132,667,647</u>	<u>124,615,800</u>
Cash from operations	<u>55,192,334</u>	<u>86,919,117</u>

NOTES (CONTINUED)

19. Related party transactions and balances

	2018 Shs	2016 Shs
a) The following transactions were carried out with related parties:		
(i) Sale of goods and services	<u>15,030,389</u>	<u>92,160</u>
(ii) Purchase of goods	<u>23,145,090</u>	<u>21,891,911</u>
b) Outstanding balances		
(i) Payable to related parties (Note 17)	<u>2,835,474</u>	<u>27,617,775</u>
(ii) Receivable related parties (Note 15)	<u>15,702,831</u>	<u>-</u>
(iii) Amount due from directors (Note 15)	<u>27,147,578</u>	<u>-</u>
c) Key management compensation		
Short term employee benefits - directors	<u>61,153,915</u>	<u>45,851,052</u>

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.

- 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.

	Period 2018		
	Euro Shs	US Dollar Shs	Total Shs
Effect on profit - (decrease)	<u>(350,069)</u>	<u>(50,896,677)</u>	<u>(51,246,745)</u>
	Year 2016		
	Euro Shs	US Dollar Shs	Total Shs
Effect on loss - (decrease)	<u>(333,535)</u>	<u>(53,026,356)</u>	<u>(53,359,891)</u>

NOTES (CONTINUED)

20. Risk management objectives and policies (continued)

Financial risk management (continued)

(a) Market risk (continued)

- 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. 8,718,750 (2016: Shs. 5,177,326) lower/higher, 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.

(c) Liquidity risk

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.

NOTES (CONTINUED)

20. Risk management objectives and policies (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

Year ended 31 March 2018

	Interest rate %	Between 0 - 12 months Shs	Between 12 - 36 months Shs	Total Shs
Interest bearing liabilities				
- Bank term loans	8.0%	93,915,892	445,886,913	539,802,805
- Finance leases	14.0%	5,628,431	8,531,603	14,160,033
- Inventory loan	8.0%	647,154,987	-	647,154,987
- Bank overdraft	8 - 14%	129,980,494	-	129,980,494
Non-interest bearing liabilities				
- Trade and other payables	NIL	487,091,271	-	487,091,271
		<u>1,363,771,076</u>	<u>454,418,516</u>	<u>1,818,189,591</u>

Year ended 31 December 2016

Interest bearing liabilities				
- Finance leases	14%	96,534,710	209,151,115	305,685,825
- Inventory loan	5.5%	12,938,781	13,850,076	26,788,857
- Bank term loans	14.5%	479,697,169	-	479,697,169
Non-interest bearing liabilities				
- Trade and other payables	NIL	354,423,624	-	354,423,624
		<u>943,594,284</u>	<u>223,001,191</u>	<u>1,166,595,475</u>

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 2018 and 2016 were as follows:

	2018 Shs	2016 Shs
Total borrowings (Note 9)	1,229,245,680	732,095,472
Less cash and cash equivalents (Note 16)	<u>(1,149,674)</u>	<u>(12,291,606)</u>
Net debt	1,228,096,005	719,803,866
Total equity	<u>1,553,084,348</u>	<u>1,320,766,643</u>
Gearing ratio	<u>79%</u>	<u>54%</u>

The increase in the debt-to-capital ratio during 2018 resulted primarily from increase in borrowings.

NOTES (CONTINUED)

22. Contingent liabilities

In the previous years, the company had an in-depth examination by the Kenya Revenue Authority. A demand for taxes was issued by Kenya Revenue Authority as a result of the examination. No liabilities have been provided for in these financial statements as the directors are of the opinion (after taking appropriate advice) that no amounts are payable.

23. Commitments

Contractual commitments for the acquisition of property, plant and equipment

At the reporting date these commitments were as follows:	2018 Shs	2016 Shs
Plant, machinery and moulds	-	28,139,988

23. Incorporation

Universal Corporation Limited is incorporated in Kenya under the Kenyan Companies Act 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

	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
1. COST OF SALES		
Opening stock of finished goods and work in progress	215,295,201	246,168,734
Cost of raw and packing materials consumed (1.1)	1,526,766,096	1,907,737,830
Production costs (1.2)	435,992,354	278,951,608
Closing stock of finished goods and work in progress	<u>(167,032,700)</u>	<u>(215,295,201)</u>
Total cost of sales	<u><u>2,011,020,952</u></u>	<u><u>2,217,562,971</u></u>
(1.1) COST OF RAW AND PACKING MATERIALS CONSUMED		
Opening stock of raw and packaging materials	481,375,242	242,988,374
Purchases	1,679,839,720	1,970,700,821
Freight and forwarding	173,189,081	175,423,877
Closing stock of raw and packaging materials	<u>(807,637,947)</u>	<u>(481,375,242)</u>
Total cost of raw and packaging materials consumed	<u><u>1,526,766,096</u></u>	<u><u>1,907,737,830</u></u>
(1.2) PRODUCTION COSTS		
Salaries and wages	271,503,232	170,868,724
Lab consumables	26,731,073	20,981,967
Electricity and water	47,844,026	28,498,787
Analysis and inspection	7,340,429	461,265
KBS levy	800,000	400,000
Fuel and gas	26,920,800	18,857,866
Repairs and maintenance	21,206,789	12,653,481
Sanitation expense	6,943,667	2,943,199
General expenses	<u>26,702,339</u>	<u>23,286,320</u>
Total production costs	<u><u>435,992,354</u></u>	<u><u>278,951,608</u></u>

SCHEDULE OF OTHER EXPENDITURE

	15 month period ending 31 March 2018	12 month period ending 31 December 2016
	Shs	Shs
1. DEPRECIATION ON PROPERTY, PLANT AND EQUIPMENT		
Depreciation on property, plant and equipment	114,716,883	55,982,712
Amortisation of intangible assets	30,886,648	14,483,048
	<u>145,603,531</u>	<u>70,465,760</u>
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	103,952,925	61,010,136
Staff medical expenses	7,381,996	5,137,274
Staff welfare expenses	34,890,821	13,113,800
Work permit	2,649,010	1,539,220
	<u>148,874,752</u>	<u>80,800,430</u>
Total employment costs		
Other administrative expenses:		
Directors' remuneration	60,352,407	45,097,697
Travelling and entertainment	37,856,262	29,356,216
Postages and telephones	6,760,324	2,974,431
Printing and stationery	10,038,169	3,947,059
Advertising	9,271,097	7,041,333
Vehicle running expenses	15,045,851	10,868,127
Audit fees		
- Current year	2,085,978	1,345,000
- Underprovision in prior years		37,500
Legal and professional fees	35,783,617	20,077,203
Bank charges	8,471,448	14,608,880
Bad debts written off		179,099
Provision for bad debts	11,413,945	0
Donations	418,000	296,800
Subscriptions	1,657,991	471,000
Miscellaneous expenses	2,765,125	582,652
	<u>201,920,214</u>	<u>136,882,998</u>
Total other administrative expenses		
Total administrative expenses	<u>350,794,966</u>	<u>217,683,428</u>
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	9,755,675	1,145,075
Security	2,892,974	2,094,829
Repairs and maintenance	11,524,252	5,294,831
Insurance	23,692,553	15,428,169
Licences	3,825,748	2,249,686
Gain on disposal of property, plant and equipment	-	(12,322)
	<u>51,691,203</u>	<u>26,200,269</u>
Total other operating expenses		

SCHEDULE OF OTHER EXPENDITURE (CONTINUED)

	15 month period ending 31 March 2018 Shs	12 month period ending 31 December 2016 Shs
3. FINANCE COSTS		
Bank overdraft interest	4,057,345	994,727
Bank term loans interest	95,335,611	54,654,966
Finance lease interest	1,356,446	1,092,757
Foreign exchange (gain)	<u>(34,909,701)</u>	<u>(82,539,505)</u>
Total finance costs	<u><u>65,839,702</u></u>	<u><u>(25,797,055)</u></u>