

**UNIVERSAL CORPORATION LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2021**



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**COMPANY INFORMATION**

<b>BOARD OF DIRECTORS</b>	: Perviz Rajnikant Dhanani : Rupen Haria : Coutts Akolo Otolu : Chai Loo Wai : Krishnan Tirucherai Parthasarathy (Appointed wef 17th Dec 2020) : Venkata Seetha Rama Raju Pakalapati (Cease to be Director wef 17th Dec 2020)
<b>REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS</b>	: L.R. No. 13777 : Club Road, Kikuyu : P.O. Box 1748, 00902 : KIKUYU  : Telephone: +254 066 32305/31459/61/62 : Fax: +254 066 31461 : info@ucl.co.ke
<b>INDEPENDENT AUDITOR</b>	: PKF Kenya LLP : Certified Public Accountants : P.O. Box 14077, 00800 : NAIROBI
<b>COMPANY SECRETARY</b>	: Azali Certified Public Secretaries LLP : Certified Public Secretary : P.O. Box 6219, 00200 : NAIROBI
<b>PRINCIPAL BANKER</b>	: NCBA Bank Kenya Plc : NAIROBI  : I & M Bank Limited : NAIROBI

## REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2021, 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 year, total turnover of the company increased from Shs. 1.65 billion to Shs. 2.57 billion due to the increase in key product sales namely Sulfran and increased tender business, majorly from global fund.

The company incurred a loss before tax of Shs. 447 million in 2020 compared to a profit of Shs. 25.1 million as at 31 March 2021 reflecting the effects of increase in sales.

As at 31 March 2021, the net asset position of the company was Shs. 1.115 billion compared to Shs. 1.116 billion as at 31 March 2020.

KEY PERFORMANCE INDICATORS	2021 Shs	2020 Shs
Turnover	<u>2,573,634,733</u>	<u>1,650,562,051</u>
Gross profit	<u>558,060,192</u>	<u>172,330,730</u>
Profit/(loss) before tax	<u>25,067,057</u>	<u>(447,011,436)</u>
Net assets	<u>1,115,360,924</u>	<u>1,116,241,150</u>

### 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 and other factors such as the impact of the coronavirus outbreak. The directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company.

In addition to the business risk discussed above, the company's activities expose it to a number of financial risks which are described in detail in Note 22 to the financial statements.

### SHARE CAPITAL

The authorised share capital of the company was increased on 10 November 2020 from Shs. 182,248,000 representing 182,248 ordinary shares of Shs. 1,000 each to Shs. 200,000,000 representing 200,000 ordinary shares of Shs. 1,000 each. The filing and approval of the increase in shares was pending from the Registrar of Companies as at the year end. The increase was registered on 07 April 2021.

### DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2020: Nil).

**REPORT OF THE DIRECTORS (CONTINUED)**

**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.

**STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR**

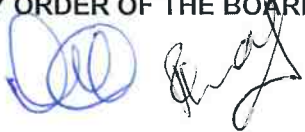
With respect to each director at the time this report was approved:

- (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 LLP continues in office in accordance with the company's Articles of Association and Section 719 of the 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 fee.

**BY ORDER OF THE BOARD**



**DIRECTOR  
NAIROBI**

28<sup>th</sup> June 2021

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**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 the company that comply with 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 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 2021 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 as set out in Note 1(a) to the financial statements. 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 28/June 2021 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 financial statements of Universal Corporation Limited set out on pages 8 to 41 which comprise the statement of financial position as at 31 March 2021, 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 Universal Corporation Limited as at 31 March 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our 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.



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

### **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.

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 report of the independent auditor is CPA Mehul Bhavsar, - Practising certificate No. 1818.**



For and on behalf of PKF Kenya LLP  
Certified Public Accountants  
Nairobi, Kenya

13 September 2021

895/21



Universal Corporation Limited  
 Annual report and financial statements  
 For the year ended 31 March 2021

**STATEMENT OF PROFIT OR LOSS**

	Notes	2021 Shs	2020 Shs
Revenue	2	2,573,634,733	1,650,562,051
Cost of sales		<u>(2,015,574,541)</u>	<u>(1,478,231,321)</u>
<b>Gross profit</b>		558,060,192	172,330,730
Other operating income	3	11,125,429	115,166
Depreciation on property, plant and equipment	11	(91,265,988)	(95,312,959)
Administrative expenses		(244,333,695)	(244,562,143)
Other operating expenses		<u>(66,136,045)</u>	<u>(93,585,447)</u>
<b>Operating profit/(loss)</b>	4	167,449,893	(261,014,653)
Finance costs	6	<u>(142,382,836)</u>	<u>(185,996,783)</u>
<b>Profit/(loss) before tax</b>		25,067,057	(447,011,436)
Tax (charge)/credit	7	<u>(25,947,283)</u>	<u>87,111,231</u>
<b>(Loss) for the year</b>		<u><u>(880,226)</u></u>	<u><u>(359,900,205)</u></u>

The notes on pages 12 to 41 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

**STATEMENT OF FINANCIAL POSITION**

CAPITAL EMPLOYED	Notes	As at 31 March	
		2021 Shs	2020 Shs
Share capital	8	182,248,000	182,248,000
Share premium		723,949,006	723,949,006
Retained earnings		209,163,918	210,044,144
<b>Shareholders' funds</b>		<b>1,115,360,924</b>	<b>1,116,241,150</b>
<b>Non-current liabilities</b>			
Borrowings	9	332,371,097	319,294,134
Deferred tax	10	43,646,261	17,698,978
Lease liabilities	19	1,601,575	2,884,488
		<b>377,618,933</b>	<b>339,877,600</b>
		<b>1,492,979,857</b>	<b>1,456,118,750</b>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	1,549,267,001	1,604,349,204
Intangible assets	12	80,959,202	90,395,255
Investment in associate	13	100	100
Right-of-use assets	18	4,340,860	7,082,455
		<b>1,634,567,163</b>	<b>1,701,827,014</b>
<b>Current assets</b>			
Inventories	14	722,288,912	693,832,293
Trade and other receivables	15	860,017,169	754,621,963
Cash and cash equivalents	16	1,702,722	6,429,553
		<b>1,584,008,803</b>	<b>1,454,883,809</b>
<b>Current liabilities</b>			
Borrowings	9	935,780,335	1,016,256,128
Trade and other payables	17	786,185,928	679,104,525
Lease liabilities	19	3,629,846	5,231,420
		<b>1,725,596,109</b>	<b>1,700,592,073</b>
<b>Net current (liabilities)</b>		<b>(141,587,306)</b>	<b>(245,708,264)</b>
		<b>1,492,979,857</b>	<b>1,456,118,750</b>

The financial statements on pages 8 to 41 were approved and authorised for issue by the Board of Directors on 28 June 2021 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 12 to 41 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
<b>Year ended 31 March 2020</b>				
At start of year	182,248,000	723,949,006	570,580,761	1,476,777,767
IFRS 16 initial adoption	-	-	(636,412)	(636,412)
(Loss) for the year	-	-	(359,900,205)	(359,900,205)
At end of year	<u>182,248,000</u>	<u>723,949,006</u>	<u>210,044,144</u>	<u>1,116,241,150</u>
<b>Year ending 31 March 2021</b>				
At start of year	182,248,000	723,949,006	210,044,144	1,116,241,150
(Loss) for the year	-	-	(880,226)	(880,226)
At end of year	<u>182,248,000</u>	<u>723,949,006</u>	<u>209,163,918</u>	<u>1,115,360,924</u>

The notes on pages 12 to 41 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

**STATEMENT OF CASH FLOWS**

	Notes	2021 Shs	2020 Shs
<b>Operating activities</b>			
Cash from operations	20	250,591,987	413,098,105
Interest paid		<u>(103,293,207)</u>	<u>(131,490,014)</u>
Net cash from operating activities		<u>147,298,780</u>	<u>281,608,091</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	11	(46,272,823)	(105,646,200)
Proceeds from disposal of property, plant and equipment	11	<u>86,400</u>	<u>278,612</u>
Net cash (used in) investing activities		<u>(46,186,423)</u>	<u>(105,367,588)</u>
<b>Financing activities</b>			
Proceeds from long-term borrowings	9	17,246,250	9,158,291
Proceeds from finance leases	9	1,360,000	-
Repayments of long-term borrowings	9	(130,463,548)	(33,859,940)
Payments under finance leases	9	<u>(527,531)</u>	<u>(3,336,958)</u>
Net cash (used in) financing activities		<u>(112,384,829)</u>	<u>(28,038,607)</u>
(Decrease)/increase in cash and cash equivalents		<u>(11,272,472)</u>	<u>148,201,896</u>
<b>Movements in cash and cash equivalents</b>			
At start of year		(762,386,404)	(856,940,188)
(Decrease)/increase		(11,272,472)	148,201,896
Effects of exchange rate changes		<u>(38,440,356)</u>	<u>(53,648,112)</u>
At end of year	16	<u>(812,099,232)</u>	<u>(762,386,404)</u>

The notes on pages 12 to 41 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 the years presented, unless otherwise stated.

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

#### a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 - Inventories or value in use in IAS 36 - Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

#### 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 and capital management are set out in notes 22 and 23 respectively.

At the reporting date, the company made a loss of Shs. 880,226 (2020: Shs. 359,900,205) and current liabilities exceeded current assets by Shs 141,587,306 (2020: Shs 245,708,264). The financial statements have been prepared on a going concern basis which assumes that the company will be in operational existence for the foreseeable future. The directors expect the company to be cash generative in the foreseeable future. The directors therefore consider it appropriate to prepare these financial statements on a going concern basis.

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.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

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

**New standards, amendments and interpretations adopted by the company**

The company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Conceptual Framework for Financial Reporting issued on 29 March 2018 The revised**

Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the company.

**Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018) The amendments,** applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

**Amendments to IFRS 3: Definition of a Business (issued in October 2018) The amendments,** applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. These amendments had no impact on the financial statements of the company, but may impact future periods should the company enter into any business combinations.

**Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (issued in September 2019)**

The amendments, applicable to annual periods beginning on or after 1 January 2020, provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the company as it does not have any interest rate hedge relationships.

**Amendments to IFRS 16 Covid-19 Related Rent Concessions (issued on 28 May 2020)**

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the company.

**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 to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020), effective for annual periods beginning or after 1 January 2023, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

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

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

- Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
- Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022, specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards 'Subsidiary as a first-time adopter' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.
- Amendments to IFRS 3 Business Combinations - The amendments added an exception to the the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.
- Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014), applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.
- IFRS 17 'Insurance Contracts' (issued in May 2017), effective for annual periods beginning on or after 1 January 2023, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The company does not issue insurance contracts.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The company plans to apply the changes above, if applicable, from their effective dates.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**b) Significant accounting judgements, estimates and assumptions**

In the application of the accounting policies, the directors are required to make 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 assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The assumptions and judgements set out below do not consider the full potential impact of the coronavirus outbreak.

**- Measurement of expected credit losses (ECL)**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets, other than trade receivables, contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**b) Significant accounting judgements, estimates and assumptions (continued)**

**- Measurement of expected credit losses (ECL) (continued)**

**Assessment of significant increase in credit risk:** The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments that are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The company uses these guidelines in determining the staging of its financial assets unless there is persuasive evidence available to rebut these presumptions.

For trade receivables, the company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

The carrying amounts of the company's financial assets that are subject to impairment assessment are disclosed in notes 15 and 22.

**- Useful lives, depreciation methods and residual values of property, plant and equipment, intangible assets and right-of-use assets**

Management reviews the useful lives, depreciation methods and residual values of the items of property, plant and equipment, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives, depreciation methods and residual values. The carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are disclosed in notes 11, 12 and 18 respectively.

**- Accounting for leases under IFRS 16**

Management has made various judgements and estimates under IFRS 16 as detailed below:

**Incremental borrowing rate:** To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

**Lease term/period:** In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).
- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**b) Significant accounting judgements, estimates and assumptions (continued)**

**- Accounting for leases under IFRS 16 (continued)**

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The carrying amounts of lease liabilities and right-of-use assets are disclosed in notes 18 and 19 respectively.

**Impairment of non-financial assets**

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The carrying amounts of property, plant and equipment, intangible assets and right-of-use assets are disclosed in notes 11, 12 and 18 respectively.

- **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. Sales of goods under ex-works are recognised based on the terms of the agreement and the company has a responsibility to make sure that the buyer can access and pick up the cargo at their place of business.

**d) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates.

At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.



**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**d) Translation of foreign currencies (continued)**

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 accumulated 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 year 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 been depreciated over the remaining lease year.

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each reporting period and adjusted prospectively, if appropriate.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/(loss).

**f) Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**f) Intangible assets (continued)**

**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 over a 5 year period.

**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) Investment in associate**

Associates are all entities over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise changes in the investor's share of the net assets of the investee after the date of acquisition. The company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The company's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the company and its associates are eliminated to the extent of the company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the company. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the company.

After application of the equity method, the company determines whether it is necessary to recognise an impairment loss on its investment in an associate. At each reporting date, the company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount, and then recognises the loss within 'Share of profit of associate in the statement of profit or loss and other comprehensive income.

## NOTES (CONTINUED)

### 1. Significant accounting policies (continued)

#### h) Accounting for leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### **The company as lessee**

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the company's incremental borrowing rate is used.

For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

##### **The company as lessor**

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**i) Financial instruments**

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument.

**- Financial assets**

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

The company classifies its financial assets into the following categories:

**i) Amortised cost;**

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

**ii) Fair Value Through Other Comprehensive Income (FVTOCI):**

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

**iii) Fair Value Through Profit or Loss (FVTPL):**

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the company may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at **fair value through other comprehensive income**
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The company reassess its business models each reporting year to determine whether the business models have changed since the preceding year. For the current and prior reporting year the company has not identified a change in its business models.

**Derecognition/write off**

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**i) Financial instruments (continued)**

**- Financial assets (continued)**

**Derecognition/write off (continued)**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

**Impairment**

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the reporting date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

**- Financial liabilities**

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**i) Financial instruments (continued)**

**- Financial liabilities (continued)**

- All other financial liabilities are classified and measured at **amortised cost**.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a currently enforceable legal 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.

**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 amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and tax credits and unused tax losses can be utilised.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**k) Taxation (continued)**

**Deferred tax (continued)**

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The company offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

**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.

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 shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

**p) Impairment of non-financial assets and intangible assets other than goodwill**

At the end of each reporting year, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**p) Impairment of non-financial assets and intangible assets other than goodwill (continued)**

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are compared at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

**q) Comparatives**

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



**NOTES (CONTINUED)**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>2. Revenue</b>		
Revenue from sale of pharmaceutical products	<u>2,573,634,733</u>	<u>1,650,562,051</u>
<b>3. Other operating income</b>		
Insurance claims	9,853,681	115,166
Miscellaneous income	<u>1,271,748</u>	<u>-</u>
	<u>11,125,429</u>	<u>115,166</u>
<b>4. Operating profit/(loss)</b>		
The following items have been charged in arriving at the operating profit/(loss):		
Depreciation on property, plant and equipment (Note 11)	91,265,988	95,312,959
Amortisation of intangible assets (Note 12)	9,313,567	29,714,721
Impairment of property, plant and equipment	9,075,349	10,831,041
Depreciation on right-of-use assets (Note 18)	2,741,595	2,741,596
Staff costs (Note 5)	317,446,788	282,768,007
Directors' remuneration	69,505,629	70,781,028
Auditors' remuneration	1,732,500	1,110,000
Repairs and maintenance		
- Production	10,174,447	7,960,189
- Administration	28,857,211	20,913,413
Provision for bad debts	<u>6,497,857</u>	<u>35,718,730</u>
<b>5. Staff costs</b>		
Salaries and wages		
- Production	223,963,339	221,137,375
- Administration	64,087,345	33,870,609
Other staff costs		
- Staff medical expenses	3,778,036	2,468,520
- Staff welfare expenses	10,591,049	11,768,914
- Work permit	2,523,232	1,357,151
Pension costs:		
- Defined contribution scheme	11,814,787	11,490,438
- National Social Security Fund (NSSF)	<u>689,000</u>	<u>675,000</u>
	<u>317,446,788</u>	<u>282,768,007</u>
The average number of persons employed during the year, by category, were:	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>
Production	140	170
Quality control	80	85
Engineering	20	25
Administration	<u>55</u>	<u>50</u>
	<u>295</u>	<u>330</u>
<b>6. Finance costs</b>		
Net foreign exchange loss	38,440,356	53,648,112
Interest expense:		
- Bank overdraft	4,728,391	7,475,483
- Bank term loans	98,409,288	123,521,375
- Finance leases	155,528	493,156
- Interest operating lease	<u>649,273</u>	<u>858,657</u>
	<u>142,382,836</u>	<u>185,996,783</u>

**NOTES (CONTINUED)**

**9. Borrowings (continued)**

In the opinion of the directors, the carrying amounts of short-term borrowings approximate to their fair value.

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.

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

	<b>2021</b> <b>Shs</b>	<b>2020</b> <b>Shs</b>
Kenya Shilling	27,137,145	31,990,022
United States Dollar	<u>1,241,014,287</u>	<u>1,303,560,240</u>
	<u><u>1,268,151,432</u></u>	<u><u>1,335,550,262</u></u>

Maturity based on the repayment structure of non-current borrowings (excluding finance lease liabilities) is as follows:

Between 1 and 2 years	256,625,938	247,140,912
Between 2 and 5 years	<u>74,922,392</u>	<u>72,153,222</u>
	<u><u>331,548,330</u></u>	<u><u>319,294,134</u></u>

Gross finance lease liabilities - minimum lease payments

Not later than 1 year	308,961	299,259
Later than 1 year but not later than 2 years	<u>822,767</u>	<u>-</u>
	<u><u>1,131,728</u></u>	<u><u>299,259</u></u>

Undrawn facilities at the reporting date were as follows:

Bank overdraft	4,381,133	1,785,390
Inventory loan	7,253,705	13,293,471
Finance leases	<u>18,868,272</u>	<u>-</u>
	<u><u>30,503,110</u></u>	<u><u>15,078,861</u></u>

**NOTES (CONTINUED)**

**10. Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%). The movement on the deferred tax account is as follows:

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
At start of year	17,698,978	105,082,957
IFRS 16 transition adjustment	-	(272,748)
Charge/(credit) to profit or loss (Note 7)	<u>25,947,283</u>	<u>(87,111,231)</u>
At end of year	<u><u>43,646,261</u></u>	<u><u>17,698,978</u></u>

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

	<b>At start</b>	<b>Charge/(credit)</b>	<b>At end</b>
	<b>of year</b>	<b>to profit or</b>	<b>of year</b>
	<b>Shs</b>	<b>loss</b>	<b>Shs</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment			
- accelerated tax depreciation	405,998,554	(19,475,509)	386,523,045
Right-of-use assets	<u>2,124,737</u>	<u>(822,479)</u>	<u>1,302,258</u>
	<u>408,123,291</u>	<u>(20,297,988)</u>	<u>387,825,303</u>
<b>Deferred tax (assets)</b>			
Tax losses carried forward	(382,103,474)	58,121,582	(323,981,892)
Lease liabilities	(2,434,772)	865,346	(1,569,426)
Provision for leave days	(342,713)	(5,440,770)	(5,783,483)
Unrealised exchange differences	<u>(5,543,354)</u>	<u>(7,300,887)</u>	<u>(12,844,241)</u>
	<u>(390,424,313)</u>	<u>46,245,271</u>	<u>(344,179,042)</u>
<b>Net deferred tax liabilities</b>	<u><u>17,698,978</u></u>	<u><u>25,947,283</u></u>	<u><u>43,646,261</u></u>

Under the Kenyan Income Tax Act, tax losses are allowable as a deduction for a year of ten years (including the year that they are incurred in).

An analysis of the company's tax losses are as follows:

	<b>Shs</b>	<b>Expiry</b>
Tax losses arising in 2018	(20,035,328)	31/12/2027
Tax losses arising in 2019	(705,476,007)	31/12/2028
Tax losses arising in 2020	<u>(354,428,306)</u>	31/12/2029
	<u><u>(1,079,939,641)</u></u>	

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NOTES (CONTINUED)

11. Property, plant and equipment

Year ended 31 March 2021

	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
<b>Cost</b>									
At start of year	809,057,746	2,500,000	27,962,418	1,548,021,632	68,839,734	25,646,104	6,562,500	77,698,538	2,566,288,672
Additions	-	-	1,700,000	11,459,471	411,000	2,687,914	-	30,014,438	46,272,823
Transfer from work in progress	-	-	68,235	10,016,319	-	-	-	(10,084,554)	-
Write off to expenses	-	-	-	-	-	-	-	(976,000)	(976,000)
Impairment of assets	(18,000)	-	(4,285,332)	(40,210,217)	-	-	-	-	(44,513,549)
Disposal	-	-	-	-	(96,000)	-	-	-	(96,000)
At end of year	809,039,746	2,500,000	25,445,321	1,529,287,205	69,154,734	28,334,018	6,562,500	96,652,422	2,566,975,946
<b>Depreciation</b>									
At start of year	191,748,741	555,550	23,252,356	677,095,907	53,400,517	9,850,858	6,035,539	-	961,939,468
On impairment of assets	(5,882)	-	(4,122,768)	(31,309,551)	-	-	-	-	(35,438,201)
On disposal	-	-	-	-	(58,310)	-	-	-	(58,310)
Charge for the year	18,966,424	-	1,472,221	64,830,467	3,826,929	2,169,947	-	-	91,265,988
At end of year	210,709,283	555,550	20,601,809	710,616,823	57,169,136	12,020,805	6,035,539	-	1,017,708,945
<b>Net book value</b>	598,330,463	1,944,450	4,843,512	818,670,382	11,985,598	16,313,213	526,961	96,652,422	1,549,267,001

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**NOTES (CONTINUED)**

11. Property, plant and equipment (continued)

Year ended 31 March 2020

	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
<b>Cost</b>									
At start of year	801,480,840	2,500,000	28,737,418	1,514,055,171	68,658,734	20,003,847	6,562,500	64,943,233	2,506,941,743
Additions	7,576,906	-	-	67,376,322	229,000	5,642,257	-	24,821,715	105,646,200
Transfer	-	-	-	12,066,410	-	-	-	(12,066,410)	-
Impairment of assets	-	-	-	(45,476,271)	-	-	-	-	(45,476,271)
Disposal	-	-	(775,000)	-	(48,000)	-	-	-	(823,000)
At end of year	809,057,746	2,500,000	27,962,418	1,548,021,632	68,839,734	25,646,104	6,562,500	77,698,538	2,566,288,672
<b>Depreciation</b>									
At start of year	172,708,702	555,550	22,402,782	644,388,146	48,046,365	7,889,929	6,035,539	-	902,027,013
On impairment of assets	-	-	-	(34,645,230)	-	-	-	-	(34,645,230)
On disposal	-	-	(727,266)	-	(28,008)	-	-	-	(755,274)
Charge for the year	19,040,039	-	1,576,840	67,352,991	5,382,160	1,960,929	-	-	95,312,959
At end of year	191,748,741	555,550	23,252,356	677,095,907	53,400,517	9,850,858	6,035,539	-	961,939,468
<b>Net book value</b>	617,309,005	1,944,450	4,710,062	870,925,725	15,439,217	15,795,246	526,961	77,698,538	1,604,349,204

**NOTES (CONTINUED)**

<b>12. Intangible assets</b>		<b>2021</b>	<b>2020</b>
		<b>Shs</b>	<b>Shs</b>
<b>Cost</b>			
At start and end of year		260,331,087	260,331,087
Write off to expenses		(122,487)	-
		<u>260,208,600</u>	<u>260,331,087</u>
<b>Amortisation</b>			
At start of year		169,935,832	140,221,111
Charge for the year		9,313,566	29,714,721
		<u>179,249,398</u>	<u>169,935,832</u>
<b>Net book value</b>		<u>80,959,202</u>	<u>90,395,255</u>
<b>13. Investment in associate</b>	<b>%</b>		
	<b>Holding</b>		
342 Ordinary shares of Ethiopian Birr 1,000 each in Regional Bioequivalence Centre Limited	24.98%	100	5,813,188
Impairment		-	(5,813,088)
		<u>100</u>	<u>100</u>
<b>14. Inventories</b>			
Packaging materials		111,194,132	164,556,203
Raw materials		282,301,551	259,736,307
Finished goods		204,211,046	220,051,276
Work in progress		11,313,973	49,488,507
Goods in transit		113,268,210	-
		<u>722,288,912</u>	<u>693,832,293</u>
<b>15. Trade and other receivables</b>			
Trade receivables		695,146,686	628,787,058
Other receivables		53,987,172	70,385,628
Receivable from related parties (Note 21 b(ii))		153,099,897	74,805,243
Amounts due from directors (Note 21 b(iii))		-	16,362,764
Less: provision for expected credit losses		(42,216,586)	(35,718,730)
		<u>860,017,169</u>	<u>754,621,963</u>
		<b>2021</b>	<b>Carrying</b>
	<b>Gross</b>	<b>ECL</b>	<b>amount</b>
	<b>amount</b>	<b>allowance</b>	<b>Shs</b>
	<b>Shs</b>	<b>Shs</b>	
Trade receivables	695,146,686	(37,310,445)	657,836,241
Other receivables	53,987,172	-	53,987,172
Receivable from related parties	<u>153,099,897</u>	<u>(4,906,141)</u>	<u>148,193,756</u>
	<u>902,233,755</u>	<u>(42,216,586)</u>	<u>860,017,169</u>

**NOTES (CONTINUED)**

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

<b>Impairment provisions (continued)</b>	<b>Gross amount Shs</b>	<b>2020 ECL allowance Shs</b>	<b>Carrying amount Shs</b>
Trade receivables	628,787,058	(35,048,663)	593,738,395
Other receivables	70,385,628	-	70,385,628
Receivable from related parties	74,805,243	(670,067)	74,135,176
Amounts due from directors	16,362,764	-	16,362,764
	<u>790,340,693</u>	<u>(35,718,730)</u>	<u>754,621,963</u>

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

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

	<b>2021 Shs</b>	<b>2020 Shs</b>
Kenya Shilling	149,980,994	345,331,976
United States Dollar	710,036,175	409,289,987
	<u>860,017,169</u>	<u>754,621,963</u>

**16. Cash and cash equivalents**

Cash at bank and in hand	<u>1,702,722</u>	<u>6,429,553</u>
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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	1,702,722	6,429,553
Bank overdraft (Note 9)	(109,240,659)	(101,624,428)
Inventory loan (Note 9)	(704,561,295)	(667,191,529)
	<u>(812,099,232)</u>	<u>(762,386,404)</u>

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

	<b>2021 Shs</b>	<b>2020 Shs</b>
Kenya Shilling	1,481,122	372,234
Euro	10,651	77,683
United States Dollar	210,949	5,979,636
	<u>1,702,722</u>	<u>6,429,553</u>

**17. Trade and other payables**

Trade payables	645,340,176	526,693,550
Accruals and other payables	49,069,232	58,612,386
Payable to related parties (Note 21b(i))	81,964,989	93,798,589
Amounts due to directors (Note 21b(iv))	9,811,531	-
	<u>786,185,928</u>	<u>679,104,525</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:

	<b>2021</b> <b>Shs</b>	<b>2020</b> <b>Shs</b>
Kenya Shilling	202,934,435	458,525,137
Euro	255,191	-
British Sterling Pound	2,394,338	-
United States Dollar	580,601,964	220,579,388
	<u>786,185,928</u>	<u>679,104,525</u>

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

	<b>0 to 3 months</b> <b>months</b> <b>Shs</b>	<b>4 to 12</b> <b>months</b> <b>Shs</b>	<b>Total</b> <b>Shs</b>
<b>Year ended 31 March 2021</b>			
Trade payables	290,403,079	354,937,097	645,340,176
Other payables	49,069,232	-	49,069,232
Payable to related parties	-	81,964,989	81,964,989
Amounts due to directors	9,811,531	-	9,811,531
	<u>349,283,842</u>	<u>436,902,086</u>	<u>786,185,928</u>
<b>Year ended 31 March 2020</b>			
Trade payables	237,012,098	289,681,452	526,693,550
Other payables	58,612,386	-	58,612,386
Payable to related parties	-	93,798,589	93,798,589
	<u>295,624,484</u>	<u>383,480,041</u>	<u>679,104,525</u>

<b>18. Right-of-use assets</b>	<b>2021</b> <b>Shs</b>	<b>2020</b> <b>Shs</b>
At start of year	7,082,455	-
Effect of change in accounting policy	-	9,824,051
Depreciation charge for the year	(2,741,595)	(2,741,596)
At end of year	<u>4,340,860</u>	<u>7,082,455</u>

The company leases an office space. The leases of this office space is typically for term of 2 years with options to renew. This lease does not contain any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

<b>19. Lease liabilities</b>	<b>2021</b> <b>Shs</b>	<b>2020</b> <b>Shs</b>
Current	3,629,846	5,231,420
Non current	1,601,575	2,884,488
	<u>5,231,421</u>	<u>8,115,908</u>

Reconciliation of lease liabilities arising from financing activities:

At start of year	8,115,908	-
Transition adjustment	-	10,733,211
Interest charged to profit or loss	649,273	858,657
Cash flows:		
- Payments under leases	(3,533,760)	(3,475,960)
At end of year	<u>5,231,421</u>	<u>8,115,908</u>
Interest expense (included in finance cost)	<u>649,273</u>	<u>858,657</u>

Weighted average effective interest rates at the reporting date was 13%.

The carrying amounts of the company's lease liabilities are all denominated in Kenya Shillings.



**NOTES (CONTINUED)**

**20. Cash from operations**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
Reconciliation of profit/(loss) before tax to cash from operations:		
Profit/(loss) before tax	25,067,057	(447,011,436)
<b>Adjustments for:</b>		
Depreciation on property, plant and equipment (Note 11)	91,265,988	95,312,959
Amortisation of intangible assets (Note 12)	9,313,567	29,714,721
Depreciation on right of use assets (Note 18)	2,741,595	2,741,596
Impairment of property, plant and equipment	9,075,349	10,831,041
Property, plant and equipment written off (Note 11)	976,000	-
Intangible assets written off (Note 12)	122,487	-
Impairment of investment in associate (Note 13)	-	5,813,088
(Gain) on disposal of property, plant and equipment	(48,710)	(210,886)
Payments under leases	(3,533,760)	(3,475,960)
Interest expenses	103,293,207	131,490,014
Interest operating lease	649,273	858,657
Foreign exchange loss	38,440,356	53,648,112
Changes in working capital		
- inventories	(28,456,619)	94,130,462
- trade and other receivables	(105,395,206)	203,840,171
- trade and other payables	107,081,403	235,415,566
<b>Cash from operations</b>	<b>250,591,987</b>	<b>413,098,105</b>

**21. Related party transactions and balances**

a) The following transactions were carried out with related parties:

(i) Sale of goods and services	116,306,996	30,373,291
(ii) Purchase of goods	30,961,792	29,287,336
(iii) Provision of legal and professional services	12,106,857	55,283,065

b) Outstanding balances

(i) Payable to related parties (Note 17)

Arcolab Private Limited (common shareholding)	909,803	1,793,950
Chemoquip Limited (common directorship)	1,121,158	2,321,447
Harleys Ltd (common directorship)	33,750	-
Nairobi Enterprises Limited (common directorship)	-	8,960,463
Strides Pharma Science Limited (ultimate majority shareholder)	54,484,690	50,927,987
Strides Pharma (Cyprus) Limited (shareholder)	2,545,387	14,265,117
Strides Pharma Global PTE Limited (step up shareholder)	22,870,203	15,529,625
	<b>81,964,989</b>	<b>93,798,589</b>

**NOTES (CONTINUED)**

**21. Related party transactions and balances (continued)**

b) Outstanding balances (continued)		
(ii) Receivable related parties (Note 15)	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
Harleys Limited (common directorship)	5,893,457	6,860,233
Harleys Uganda Limited (common directorship)	998,643	1,189,241
Just Plastic Limited (common directorship)	43,135,451	39,643,444
Nairobi Enterprises Limited (common directorship)	-	15,631,466
Strides Pharma Science Limited (ultimate majority shareholder)	25,242,089	9,508,120
Strides Pharma (Cyprus) Limited (shareholder)	2,057,474	1,972,740
Unisel Pharma (K) Ltd (common directorship)	75,772,785	-
	<u>153,099,897</u>	<u>74,805,243</u>
(iii) Amount due from directors (Note 15)	<u>-</u>	<u>16,362,764</u>
(iv) Amount due to directors (Note 17)	<u>9,811,531</u>	<u>-</u>
c) Key management compensation		
Short term employee benefits - directors	<u>69,505,629</u>	<u>70,781,028</u>

**22. 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 under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

**(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.

	<b>Year 2021</b>		
	<b>Euro Shs</b>	<b>US Dollar Shs</b>	<b>Total Shs</b>
Effect on loss - (decrease)	<u>746</u>	<u>(77,795,839)</u>	<u>(77,795,093)</u>

**NOTES (CONTINUED)**

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

**Financial risk management (continued)**

**(a) Market risk (continued)**

- Foreign exchange risk (continued)

	Year 2020		
	Euro Shs	US Dollar Shs	Total Shs
Effect on loss - (decrease)	<u>5,438</u>	<u>(77,620,900)</u>	<u>(77,615,463)</u>

- 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 March 2021, 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. 7,230,524 (2020: Shs. 9,204,301) 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, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

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

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

In assessing whether the credit risk on a financial asset has increased significantly, the company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For this purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the company compares financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

**NOTES (CONTINUED)**

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

**Financial risk management (continued)**

**(b) Credit risk (continued)**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

<b>Basis for measurement of loss allowance</b>	<b>Lifetime expected credit losses</b>	
	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
Trade receivables	695,146,686	628,787,058
Other receivables	53,987,172	70,385,628
Receivable from related parties	153,099,897	74,805,243
Amounts due from directors	-	16,362,764
Cash at bank	1,702,722	6,429,553
Gross carrying amount	903,936,477	796,770,246
Loss allowance	(42,216,586)	(35,718,730)
Exposure to credit risk	<u>861,719,891</u>	<u>761,051,516</u>

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

- a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
- b) financial assets that are credit impaired at the reporting date;
- c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

The age analysis of the trade receivables at the end of each year was as follows:

	<b>Not past due</b>	<b>30 to 60 days</b>	<b>61 to 90</b>	<b>Over 90 days</b>	<b>Total</b>
	<b>Shs</b>	<b>past</b>	<b>days past</b>	<b>past</b>	<b>Shs</b>
		<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	
As at 31 March 2021	<u>579,815,010</u>	<u>57,537,010</u>	<u>11,181,847</u>	<u>46,612,819</u>	<u>695,146,686</u>
As at 31 March 2020	<u>533,558,972</u>	<u>119,035,476</u>	<u>26,721,477</u>	<u>(50,528,867)</u>	<u>628,787,058</u>

The changes in the loss allowance during the year were as follows:

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
At start of year	35,718,730	-
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	6,497,856	35,718,730
At end of year	<u>42,216,586</u>	<u>35,718,730</u>

**NOTES (CONTINUED)**

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

**Financial risk management (continued)**

**(c) Liquidity risk**

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. Cash flows 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.

<b>Year ended 31 March 2021</b>	<b>Interest rate %</b>	<b>Between 1 - 3 months Shs</b>	<b>Between 4 - 12 months Shs</b>	<b>over 12 months Shs</b>	<b>Total Shs</b>
<b>Interest bearing liabilities</b>					
- Bank term loans	8.0%	30,417,355	91,252,065	331,548,330	453,217,750
- Finance leases	13.0%	77,240	231,721	822,767	1,131,728
- Inventory loan	8.0%	704,561,295	-	-	704,561,295
- Bank overdraft	8 - 13%	109,240,659	-	-	109,240,659
<b>Non-interest bearing liabilities</b>					
- Trade and other payables	NIL	786,185,928	-	-	786,185,928
		<u>1,630,482,477</u>	<u>91,483,786</u>	<u>332,371,097</u>	<u>2,054,337,360</u>
<b>Year ended 31 March 2020</b>	<b>Interest rate %</b>	<b>Between 1 - 3 months Shs</b>	<b>Between 4 - 12 months Shs</b>	<b>Over 12 months Shs</b>	<b>Total Shs</b>
<b>Interest bearing liabilities</b>					
- Bank term loans	8.0%	61,785,228	185,355,684	319,294,134	566,435,046
- Finance leases	14.0%	74,815	224,444	-	299,259
- Inventory loan	8.0%	667,191,529	-	-	667,191,529
- Bank overdraft	8 - 14%	101,624,428	-	-	101,624,428
<b>Non-interest bearing liabilities</b>					
- Trade and other payables	NIL	679,104,525	-	-	679,104,525
		<u>1,509,780,525</u>	<u>185,580,128</u>	<u>319,294,134</u>	<u>2,014,654,787</u>

**NOTES (CONTINUED)**

**23. 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 March 2021 and 2020 were as follow	<b>2021 Shs</b>	<b>2020 Shs</b>
Total borrowings (Note 9)	1,268,151,432	1,335,550,262
Less cash and cash equivalents (Note 16)	<u>(1,702,722)</u>	<u>(6,429,553)</u>
Net debt	1,266,448,710	1,329,120,709
Total equity	<u>1,115,360,924</u>	<u>1,116,241,150</u>
Gearing ratio	<u>114%</u>	<u>119%</u>

The decrease in the debt-to-capital ratio during 2021 resulted primarily from decrease in borrowings and profitability.

**24. Contingent liabilities**

NCBA Bank Kenya Plc and I&M Bank Limited have given a guarantee to suppliers on behalf of the company amounting to USD 315,432 and Euros 17,000 respectively. No material loss is anticipated from this.

**25. Incorporation**

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

**26. Presentation currency**

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

**MANUFACTURING ACCOUNT**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>1. COST OF SALES</b>		
Opening stock of finished goods and work in progress	269,539,783	303,646,616
Cost of raw and packing materials consumed (1.1)	1,580,946,276	1,078,895,989
Production costs (1.2)	380,613,501	365,228,499
Closing stock of finished goods and work in progress	<u>(215,525,019)</u>	<u>(269,539,783)</u>
<b>Total cost of sales</b>	<u><u>2,015,574,541</u></u>	<u><u>1,478,231,321</u></u>
<b>(1.1) COST OF RAW AND PACKING MATERIALS CONSUMED</b>		
Opening stock of raw and packaging materials	424,292,510	456,102,381
Purchases	1,550,149,449	1,047,086,118
Closing stock of raw and packaging materials	<u>(393,495,683)</u>	<u>(424,292,510)</u>
<b>Total cost of raw and packaging materials consumed</b>	<u><u>1,580,946,276</u></u>	<u><u>1,078,895,989</u></u>
<b>(1.2) PRODUCTION COSTS</b>		
Freight and forwarding	21,661,065	29,964,310
Salaries and wages	236,467,126	233,302,813
Lab consumables	17,101,861	8,471,723
Electricity and water	36,429,893	35,068,603
KBS levy	400,000	400,000
Fuel and gas	22,850,359	23,099,403
Repairs and maintenance	10,174,447	7,960,189
General expenses	<u>35,528,750</u>	<u>26,961,458</u>
<b>Total production costs</b>	<u><u>380,613,501</u></u>	<u><u>365,228,499</u></u>

**SCHEDULE OF OTHER EXPENDITURE**

	<b>2021</b>	<b>2020</b>
	<b>Shs</b>	<b>Shs</b>
<b>1. DEPRECIATION ON PROPERTY, PLANT AND EQUIPMENT</b>		
Depreciation on property, plant and equipment	<u>91,265,988</u>	<u>95,312,959</u>
<b>2. ADMINISTRATIVE EXPENSES</b>		
<b>Employment:</b>		
Salaries and wages	64,087,345	33,870,609
Staff medical expenses	3,778,036	2,468,520
Staff welfare expenses	10,591,049	11,768,914
Work permit	<u>2,523,232</u>	<u>1,357,151</u>
<b>Total employment costs</b>	<u>80,979,662</u>	<u>49,465,194</u>
<b>Other administrative expenses:</b>		
Directors' remuneration	69,505,629	70,781,028
Travelling and entertainment	9,353,186	13,415,642
Postages and telephones	3,995,794	4,463,700
Printing and stationery	6,119,472	5,316,154
Advertising	10,831,425	3,715,740
Vehicle running expenses	2,957,714	7,381,846
Audit fees	1,732,500	1,110,000
Legal and professional fees	20,221,414	22,567,349
Bank charges	7,862,991	10,615,485
Provision for bad debts	6,497,857	35,718,730
Donations	86,000	69,600
Subscriptions	717,739	774,002
Miscellaneous expenses	<u>23,472,312</u>	<u>19,167,673</u>
<b>Total other administrative expenses</b>	<u>163,354,033</u>	<u>195,096,949</u>
<b>Total administrative expenses</b>	<u>244,333,695</u>	<u>244,562,143</u>
<b>3. OTHER OPERATING EXPENSES</b>		
<b>Establishment:</b>		
Security	2,364,126	2,578,860
Repairs and maintenance	28,857,211	20,913,413
Insurance	12,943,590	13,588,661
Licences	889,317	7,614,953
Impairment of investment in associate	-	5,813,088
Impairment of property, plant and equipment	9,075,349	10,831,041
(Gain) on disposal of property, plant and equipment	(48,710)	(210,886)
Amortisation of intangible assets	9,313,567	29,714,721
Depreciation on right of use assets	<u>2,741,595</u>	<u>2,741,596</u>
<b>Total other operating expenses</b>	<u>66,136,045</u>	<u>93,585,447</u>



**SCHEDULE OF OTHER EXPENDITURE (CONTINUED)**

<b>3. FINANCE COSTS</b>	<b>2021 Shs</b>	<b>2020 Shs</b>
Interest expense:		
- Bank overdraft interest	4,728,391	7,475,483
- Bank term loans interest	98,409,288	123,521,375
- Finance lease interest	155,528	493,156
- Interest operating lease	649,273	858,657
Foreign exchange loss:		
- realised exchange (gain)/loss	(4,373,780)	43,342,934
- unrealised exchange loss	42,814,136	10,305,178
<b>Total finance costs</b>	<b>142,382,836</b>	<b>185,996,783</b>





